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ABSTRACT

Under the plan described in this report--a so-called "Equal Yield" formula contained in Senate Bill No. 110--each district will have an equal opportunity to realize the same amount of revenue per pupil from each unit or "mill" of local tax levied in combined State and local funds. The publication examines in detail several key aspects of the Michigan school finance reform story, such as what was wrong with the former Strayer-Haig concept, what developments led to the selection of the Equal Yield plan, how the Equal Yield plan works, how it passed into law, and how well the new plan will satisfy previous court rulings on educational inequality. Numerous tables of statistical data are included in the appendixes. (Author/DN)

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NEW EQUITY IN MICHIGAN SCHOOL FINANCE

THE STORY OF THE BURSLEY ACT

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September 1, 1973

In November of 1972, immediately after the citizens of Michigan voted down a proposed Constitutional amendment designed to implement a system of full state funding of public K-12 education, I phoned Governor William Milliken and Superintendent of Public Instruction John Porter and urged that we continue our cooperative effort to attain the same reform goals without Constitutional change -- through the legislative action that was now the only course available to us.

Governor Milliken and Dr. Porter responded by making available their chief advisors in the field of school finance, Dr. James Phelps and Mr. Robert McKerr, to work with Mr. Gene Caesar of our own Senate staff on evolving a reform plan that could be implemented through statutory change alone.

Although these three key specialists involved a great many other individuals, from state government and throughout the educational community, in their initial discussions, the technical complexity of the task they undertook soon left the workload resting almost solely on their own competent shoulders.

There are extremely few staff people in this nation capable of designing a workable, politically feasible school finance reform plan for a state with more than 600 highly varied school districts, a strong tradition of "local control," and a legislature split almost evenly on a partisan basis.

Michigan was fortunate, in its moment of need, to have the combined expertise of three such men.

I must acknowledge my debt, for the success of this measure, to my four colleagues on the Senate Education Committee and to the seventeen other Senators who joined in bi-partisan co-sponsorship of Senate Bill No. 110.

In the House of Representatives, I must similarly commend my counterpart Education Committee Chairman Mrs. Lucille McCollough, Minority Leader Clifford H. Smart, Minority Floor Leader Dennis O. Cawthorne, and House Education Committee Vice-Chairman William R. Keith.

At risk of neglecting equally staunch supporters from both parties, I would certainly thank Representatives Richard A. Young and Thomas H. Brown for their championing of the Equal Yield concept at crucial moments in committee and caucus deliberations.

Representatives Roy L. Spencer and William Bryant Jr. deserve a special degree of recognition, since they not only supported Senate Bill No. 110 but also contributed basic and important concepts to the proposal during its evolution.

Education in Michigan is indebted to Senator Charles O. Zollar, who reviewed and refined this measure in his capacity as Chairman of the Senate Appropriations Committee, and to Representatives Bobby D. Crim, William L. Jowett and Dale E. Kildee, who served with Senators Zollar and Gray and myself on the conference committee.

The viewpoints that were brought to bear on this measure when it was shaped into its final form in public discussion and debate were different and divergent on occasion, but all were characterized by a sincere desire to improve our method of supporting our schools and by the highest degree of statesmanship.

Substantial credit for the success of this bill must go to individuals from the educational community, particularly Gerald R. Dunn of the Metropolitan Association for Improved School Legislation, Joseph C. Kolderman Jr. of the Grand Rapids Public Schools, Lannie Falvo of the Dearborn Public Schools, and to David Runala and the Michigan Association of School Boards he so ably serves.

Dr. Harry Howard, Superintendent of the Ann Arbor Public Schools and former Superintendent of the Wayne-Westland Community Schools, must be mentioned, not only for his welcome support of the Equal Yield concept but also for the extensive contribution his knowledge and insight, as exemplified in his outstanding doctoral thesis, have made to the total history of educational reform in this state.

The gaining of new equity in Michigan school finance was a massive, cooperative undertaking, and it was a pleasure and a privilege to work with all who played a part.

Gilbert E. Bursley

GILBERT E. BURSLEY
Chairman
Senate Education Committee

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INTRODUCTION

As a general goal, "equal educational opportunity" is almost universally agreed upon -- by educators, laymen, and legal authorities alike. Yet when state lawmakers strive to attain that goal by devising workable systems or revenue collection and distribution, their task is extremely complex and controversial.

Much of the reason probably lies in a lack of clear definition. Just what is "equal educational opportunity?" Certainly "equal opportunity" is not synonymous with "equality;" the word opportunity connotes option and choice, not dictated sameness. But to whom exactly should this equal option or choice, this "even chance," be guaranteed? Solely to the classroom student? Or to his parents and their neighbors as well, in their collective role as taxpaying citizens of a local school district?

In a sense, the Michigan Legislature, by enacting a school-financing reform plan in its 1973 regular session, officially discarded one definition of equal opportunity and adopted another.

Under the former system, state school aid was distributed by means of a Strayer-Haig or "deductible millage" formula. Each district was given an equal opportunity to finance a state-determined foundation program or "gross allowance," provided a certain level of property taxation was maintained. However, when district voters exercised their right, under the Michigan Constitution, to go above or remain below that level of taxation, the revenues produced were neither equal nor equitable.

Under the new plan, a so-called "Equal Yield" formula contained in Senate Bill No. 110, each district will have an equal opportunity to realize the same amount of revenue per pupil, in combined state and local funds, from each unit or "mill" of local tax levied.

This simple analysis probably raises far more questions than it answers. After all, Senate Bill No. 110 was the culmination of several stormy years of discussion and debate, the product of previous unsuccessful proposals for change, and the accomodation of a great many issues, often issues in conflict. In the pages that follow, a detailed examination is made of the several key aspects of the Michigan school-financing reform story:

The Former System. What, more specifically, was wrong with the Strayer-Haig concept? Why was it necessary to abandon this principle entirely, instead of merely improving the foundation-program level?

Background. What developments, what studies, and what recommendations led to the selection of the Equal Yield plan? What economic and political forces dramatized the existing inequities, stressed the need for change and affected the nature of change? What other plans were considered, by the legislature or by the people, and why were they rejected.

The Equal Yield Formula. How does the new plan address itself to the inequities formerly endured by both pupils and taxpayers? What reforms or modifications are being made in revenue sources? Exactly how will the new state aid distribution system work, and what will be the effect on the property-poor and property-rich school districts of Michigan?

The Legislative Process. What were the chief sources of support for and opposition to the new plan, in committee and floor action by both houses of the Michigan Legislature? What alternatives did opponents offer?

The Legal Question. Since the Michigan Supreme Court has ruled, in an opinion similar to the Serrano decision in California, the former system to be in violation of the state constitution by discriminating on the basis of wealth, how well will the new plan satisfy that ruling?

This is basically, once again, the story of how one state redefined "equal educational opportunity" and why. For all but a few other states, the process of school-finance reform still lies ahead. Hopefully, in that process, some insight into the Michigan experience may be helpful.

MICHIGAN'S FORMER SCHOOL-FINANCING SYSTEM

Like most states, Michigan has supported its public schools chiefly through a combination of state aid and local revenue. Through recent years, about 43 percent of school-operating costs have been met by state aid and about 5 percent by federal assistance. The largest share, some 52 percent, has come from local property taxes.

(The state has paid, in addition, the sizeable and increasing employers' share of Social Security and retirement costs; but local districts, in turn, have carried the total burden of school construction.)

Property taxes are levied in terms of "mills" -- or tenths of a cent per dollar of valuation. The Michigan Constitution provides for each school district to be "allocated" a portion of the 15 to 18 non-voted mills distributed to local units; this amounts to 8 or 9 mills in most cases. The Constitution requires further that additional property taxes for school support be approved by popular vote in the local districts.

Accordingly, substantial variations have existed in tax rates among Michigan's 604 school districts. The median levy for 1972-73 was 24.565 mills in both allocated and "extra-voted" millage, but 10 districts levied less than 10 mills while three levied more than 36 mills. Although the great majority of Micnigan's 2,193,593 student "membership" was supported by levies ranging from 20 to 30 mills, fully 519,349 "in-formula" pupils lived in districts levying less than 20 mills while 339,641 had more than 30 mills of "local effort" behind them.

Moreover, even greater district-to-district differences have existed in the amount of property available to be taxed for the education of each student. In 1972-73, the "average" district had $20,268 in state-equalized valuation or "SEV" behind each pupil. But fully 43 districts, with 89,476 pupils, had SEV's of below $10,000, while 58 districts, with 115,106 pupils, enjoyed SEV's of over $35,000.

Obviously, since each mill brings in $1 for each $1,000 of SEV, these considerable variations in both tax rate and tax base could not help but be reflected in the amount of local property tax revenue available for the education of each child.

Michigan has attempted for a number of years to compensate for differences in district tax base by giving low-SEV districts larger amounts of state aid than high-SEV districts. This was done by a deductible millage formula which subtracted,

from a specified foundation program or "gross allowance," the amount which a given number of mills would produce in each district. (See Appendix A.)

The 1972-73 formula was $644 minus 16 mills for districts with more than $17,750 SEV and $715 minus 20 mills for districts below this level. Under this formula, the average $20,268 district received $320 per pupil in state aid. Districts with SEV's of $10,000 or less received $515 or more per pupil, while districts with SEV's of $35,000 or more received $84 or less, and districts with SEV's of $40,250 and above received no state aid. (See Appendix B.)

DEFECTS OF THE DEDUCTIBLE-MILLAGE FORMULA

Even so, these considerable variations in state aid payments clearly failed to compensate fully for the variations in resources available to local school districts. With a median levy of 24.565 mills on a $20,268 tax base behind him, the average pupil had about $498 in local revenue to be combined with the $320 in state aid for a total of $818 to be spent on his basic education. With exactly the same degree of local self-taxing effort, however, a $35,000 district could have $944 for each of its students, while a $10,000 district had only $761.

This inequity was even more glaring when examined from the reverse standpoint of how much property tax the various districts had to impose to have the same operating revenue. To spend the

same $818 per pupil as the average district, the $10,000 district had to levy 30.3 mills, while the $35,000 district needed only a 20.97 mill levy.

In other words, a Michigan homeowner who lived in a $10,000 SEV district in 1972-73 had to pay fully half again as much as an owner of a home of equal value in a $35,000 SEV district to provide the same number of dollars for the education of his children!

At the same time, and similarly inherent in the same formula, a directly opposite type of inequity existed in the "low-effort" districts of the state. If the homeowners in the $10,000 SEV and $35,000 SEV districts both paid only 10 mills in school-operating taxes, the resident of the "poor" $10,000 district had $615 spent on his child in school, while his counterpart in the "rich" $35,000 SEV district had only $434.

To worsen the practical effect of this blending of discrimination and reverse-discrimination based upon wealth, Michigan's low-SEV districts had little incentive for taxing themselves. In a $10,000 SEV district, the difference between a low effort of 10 mills and a high effort of 30 mills was just $200 per pupil; in a $35,000 SEV district, this same difference was $700 per pupil.

In summary, the Strayer-Haig or "deductible-millage" formula, when utilized in a state that depends to any major degree on revenue raised locally with substantial variations in rate and base, contains three basic defects:

1. The high-SEV or wealthy district is favored when tax rates are above the deductible-millage level.

2. The low-SEV or poorer district is favored when tax rates are below the deductible-millage level.

3. Both these inequities are compounded by the fact that incentive for self-taxing effort remains directly proportionate to district wealth.

Discrimination based upon district wealth, under such a formula, cannot be erased by raising the deductible-millage level; it can only be reversed. If the deductible millage in a state aid distribution formula were to be made identical with the median operating levy, the education of every child in the state would still be conditioned upon wealth -- directly for half the children, and inversely for the other half. (See Appendix C.)

It is largely in recognition of this basic, irremediable flaw in the Strayer-Haig concept that Michigan is turning, for 1973-74, to a totally different type of school aid formula. By initiating a three-year phase-in of the "Equal Yield" principle, state funds will be distributed in such a manner so as to guarantee each school district equal per-pupil dollar returns on equal self-taxing effort.

The Senate Bill No. 110 formula was by no means the only alternative considered in Michigan. A wide variety of proposals for change have been made throughout the last half-dozen years. The issue of school-financing reform has, in fact, been the single

most controversial question before the Michigan Legislature in each session since 1969.

I - - THE BACKGROUND OF MICHIGAN SCHOOL FINANCE REFORM

Efforts to reform Michigan's system of supporting public education are generally traced back to the so-called "Thomas Report," published early in 1968. The Legislature appropriated $200,000 for a comprehensive study conducted under the direction of J. Allan Thomas of the University of Chicago and entitled School Finance and Educational Opportunity in Michigan.

The Thomas Study identified a number of critical problems in Michigan school finance. Among other things, it found a great variation in the educational opportunities available to students in the State of Michigan. Almost three times as much money was being spent on the public education of some children as was being spent on the education of others. At the same time, the tax rates paid to support schools by citizens in different districts varied by a ratio of over four to one.

Although the study did not recommend any specific state aid distribution formula, it did identify four basic alternatives, one of which (C) was already in use.

A. A "percentage equalizing" system whereby the state would pay somewhere between 10 percent and 90 percent of the actual school operation cost, inversely proportioned to the property tax wealth of the district.

B. A form of what subsequently became the Senate Bill No. 110 "Equal Yield" concept, with each district being guaranteed, in combined state and local funds, an equal amount of money per pupil for each mill levied.

C. A continuation of the Strayer-Haig concep then in effect, consisting of a foundation level of so many dollars per pupil (gross allowance) minus the local share in terms of a specified property tax levy (deductible millage).

D. A programmatic or "classroom unit" approach, whereby funding for districts would be based on specified class size for different types of pupils -- general, vocational, handicapped, underachieving, etc.

The study made a number of observations comparing the alternatives, which forecasted public and legislative action yet to come:

1. The yield equalizing formula (which is actually the same system as the percentage-equalizing formula, derived by different mathematics) would be more equitable for low SEV districts, and would leave maximum flexibility in decision making at the local level;
2. The classroom unit formula would stimulate state expenditures but would shift a certain amount of control to the state level;
3. The deductible millage formula was not judged satisfactory on any of the criteria.

The Thomas Report both stimulated and served as a resource document for practically all subsequent proposals for school financing reform. But in another sense, the real catalyst for reform came even earlier. In 1965, the Michigan Legislature passed Public Act 379, which authorized public employees to bargain collectively. (Ironically, this act was an amendment to the earlier Public Act 336 of 1947, which prohibited strikes by public employees.)

Immediately, teacher groups began negotiating for improved salaries and benefits, and a large number of strikes took place during the remainder of the decade - - strikes that were technically illegal but were generally condoned because of both a teacher shortage and a traditional atmosphere of labor sympathy in Michigan.

In the period from 1964-65 to 1971-72, the average teacher's salary increased fully 76.2 percent in the state. Coupled with such other factors as a 15.4 percent rise in pupil membership, this trend drove district expenditures up fully 140.4 percent. Throughout this eight-year era of ever climbing costs, substantial increases in state school aid were made, but a large portion of the growing burden still fell on local property taxes. (See Appendix D.)

Some districts voted extremely high millage rates; and even in districts where rates rose more moderately, changes in assessment practices often brought sharp hikes in individual tax

bills. These circumstances focused increased attention on the entire question of school finance, including both the inequities and the inadequacies of the existing system.

"Collectively, these difficulties add up to an educational crisis in Michigan," Governor William G. Milliken warned early in 1969, the year after the Thomas Report was published. "If we fail to move intelligently in the very near future this crisis will become an educational disaster."

(This prophecy was nearly realized in the spring of 1973 when the Detroit School District threatened closing because of a $75 million deficit and the inability to borrow funds. In a separate action, the Legislature arranged a loan, but as security required the district to increase their property tax, under a special provision in the State Constitution to repay "evidence of indebtedness", or impose a school district income tax, the first and only one allowed under Michigan law.)

Immediately following his 1969 warning, Governor Milliken appointed a six-member Commission on Educational Reform, which spent six months traveling throughout the state holding public hearings and collecting facts. At the same time another task force, composed of a group of professors of school administration, was assembled to plan for implementing the Thomas Report's alternative D. Their recommendations were published in June of that year, incorporating the programmatic or "classroom unit" concept and became known as the "Equal Quality Plan." Also, Michigan's State Board of Education was then readying recommendations

for a new state aid formula based on the yield-equalizing concept, the Thomas Report's alternative B. It might be noted that one Michigan House member, Representative Roy Spencer, had proposed another form of the yield-equalizing concept even before the Thomas Report was published. Spencer's plan, however, had envisioned a much higher guarantee level with increased state income taxes to pay the cost. Not until years later did the full significance of these proposals become recognized.

In September, 1969, the Governor's Commission made its report and Governor Milliken subsequently made detailed recommendations to the Michigan Legislature in October. Although a conventional state school aid bill was suggested for the following 1970-71 fiscal year, the Governor proposed that a constitutional amendment be submitted to the voters that would enable the Legislature to impose a 16-mill statewide property tax for school operation. He further proposed that schools be financed in the future through a programmatic approach that contained many features of the Equal Quality Plan with comprehensive budget review at both the regional and state levels. It was the Governor's hope that this constitutional amendment could be adopted and the new distribution system be operational by the 1972-73 school year.

Although the Governor's program served as the basis for extensive discussion in the Legislature during late 1969 and early 1970, and a few of his minor recommendations were enacted into law, his major recommendations for school finance reform were not acted upon. Nor did the Legislature follow the recommendations

of the State Board for a yield equalizing system. Instead the deductible millage formula was continued at an improved level.

In 1970, the Legislature adopted a two-year state aid plan. It was known as the Spencer-Ryan Plan for the Democratic Speaker of the House, William Ryan, and Republican Representative Roy Spencer. The second year of the plan would have been a revision of the formula previously developed by Spencer along the yield-equalizing concept. Included was a program to reimburse a portion of teacher salaries in the non-public schools. Some observers believe that the total package was a trade-off to secure support for parochiaid. However, the increased state taxes needed to fund the plan were never enacted, and in the summer of 1971, it was repealed and replaced with a modification of the traditional deductible millage formula. Ironically, the Governor was one of the critics of the Spencer-Ryan Plan because it took the focus away from a constitutional amendment, he was now backing.

By the summer and fall of 1971, many interested persons were convinced that school finance reform could only come about through the adoption of a constitutional amendment. Proposed constitutional amendments were developed by both parties in the Legislature, and by the Governor's Office. When no proposed amendment was able to obtain the necessary legislative support in order to put the proposal on the ballot, the Michigan Education Association undertook the circulation of petitions to place a proposed constitutional amendment on the ballot. Initially,

Governor Milliken undertook a petition drive to secure the necessary signatures to present a constitutional amendment to the electorate. After reviewing the MEA proposal, the Governor abandoned his independent efforts and joined with the MEA in order to obtain the necessary signatures. The Democratic Party undertook a petition drive, but were not able to obtain the necessary signatures on their petitions. A constitutional amendment, based on the MEA circulated petitions, was presented to the voters in November, 1972.

The amendment would have reduced the existing 50-mill constitutional property tax limit to a new 26-mill limit with:

(a) 6 voted mills for educational enrichment;

(b) 4½ allocated mills for vocational, compensatory, and intermediate school district distribution;

(c) 7½ mills allocated and 6 mills voted for counties and townships.

This amendment would have eliminated the use of property taxes for basic school operating purposes and would have required an increase in the state income to replace more than $1 billion in lost revenue. The Governor prepared a tax program and a new distribution plan.

During this time, the Serrano decision challenging the constitutionality of school funding schemes came from California. Immediately, the Governor and Attorney General filed suit on similar grounds, thus adding an additional sense of urgency to the school finance reform movement.

The constitutional amendment was defeated substantially by the Michigan electorate in November, 1972. The proposal lost by nearly a million votes in a three-county area around Detroit where a Federal District Court judge had threatened to institute a metropolitan desegregation remedy. Apparently, many people felt there was a relationship between the funding of the schools and the ability of the judge to carry out his plan. In other parts of the state, issues of local control, uncertainty of the taxes that would be required and the monies the schools would receive, plus a lack of confidence in government in general led to its defeat. In addition, the proposal was criticised by some leaders of the Democratic Party and labor unions who wanted the repeal of the ban against a graduated income tax tied to the constitutional revision of school finance.

As a result of the defeat of the Constitutional amendment, the individuals who were on the forefront of educational reform looked for a new proposal. It was obvious that some type of yield-equalizing formula was the only school finance system having a chance of being accepted politically and meeting a legal challenge. Previously agreement on the yield equalizing concept could not be reached because the "full state funding" option was alive. There seemed to be little choice but to return to the formula identified in the Thomas Study, recommended by the State Board of Education in 1969, and enacted and then repealed once before. A proposal was developed to provide a vehicle for public hearings and statewide discussion. A revised version was introduced in January of 1973 as Senate Bill No. 110.

II - - THE EQUAL YIELD PLAN AND ITS EFFECT

Senate Bill No. 110, as stated earlier, establishes a principle of "equal return on equal effort" in Michigan school finance. It provides for a three-year phase-in of a system whereby state funds are distributed in such a manner so as to guarantee each local school district the same number of total dollars per pupil, state and local, for each unit of locally-determined taxation.

Aside from its sheer simplicity, the chief difference between the Equal Yield Plan and all previous proposals for financing reform lies in the fact that the new plan will work with no basic changes in resources and budget, at either the state or local levels.

All existing provisions for raising state school revenue remain essentially the same. (See Appendix E.) Furthermore, by the best possible projections, the normal growth rate of present state revenue sources will be sufficient to fund the plan. No state tax increases will be needed.

Nor will any change in the Michigan Constitution be needed, since existing provisions for raising local school revenue are similarly retained, along with the right of citizens in each

school district to determine their own property-tax levels. (See Appendix F.)

Instead of abandoning property taxes as a major means of school support because of their inequities for school children and taxpayers alike, Michigan is moving to correct those inequities in two basic ways:

1. By simultaneously enacting a major local tax relief program built around the "circuit breaker" concept -- the principle that whenever property taxes exceed a given percentage of any individual's income the state should pay all or a substantial portion of the excess amount. In Michigan, the percentage has been set at 3.5 percent and the state will pay all of the excess for senior citizens and certain veterans, and 60 percent of the excess in other cases. (See Appendix G.) This feature should make the property tax not only more equitable for low-income persons but also more workable as a revenue source for local school districts.

2. By equalizing, through the supplementary manner in which state school aid will be distributed, the revenue raising ability of school districts.

DISTRIBUTION OF STATE AID

For purposes of program calculation, Senate Bill No. 110 guarantees each local school district in Michigan an amount of

combined state membership aid and local revenue equal to $38 per pupil per mill for the first 22 mills levied in 1973-74, $39 per pupil per mill for the first 25 mills levied in 1974-75, and $40 per pupil per mill without limitation in 1975-76. (Through the phase-in period, districts will receive only their local revenue on millage levied above the guarantee level.)

No allowances are made, in the formula itself, for such need or cost variations as pupil or program weightings, salary schedule differences, regional cost variations, density-sparsity factors, etc., since such variations are either considered in separate categorical provisions (see Appendix H) or stem totally from determinations made at the local level and are thus properly related to each district's self-taxing effort.

However, to make state funding more fair in cases of substantial enrollment increase or decrease, Senate Bill No. 110 provides for an averaging, beginning in 1974-75, of two pupil counts -- made on the fourth Friday in September and the first Friday in May. At present, only a single count is taken.

Application of the bill's "Equal Yield" concept to millage levied for capital outlay and debt retirement purposes -- an area where no form of state assistance or equalization exists at present -- will begin in 1974-75, the second year of the "phase-in." A district's prior year bonding millage will then be reimbursed by the state, on the basis of the same $38 per pupil per mill guarantee, but with the 22-mill limitation applying to combined operating and bonding millage. Moreover, each

district receiving such reimbursement will be required to apply these funds specifically to debt retirement and lower its bonding millage to the fullest extent such application permits. In 1975-76, bonding millage will be reimbursed on a prior year basis with a $39 per pupil per mill guarantee and a 25-mill limitation applying to combined operating and bonding millage.

No specific "local incentive" provisions are offered, or deemed necessary, other than those inherent in the concept of relating state aid to local effort. Since many smaller districts are low-effort "tax shelters," considerable pressure for district reorganization should result, along with such program improvements as smaller class size in cases where inadequate program can be attributed to the inadequate tax base of the district.

No other program calculations are included in the concept.

Under the Senate Bill No. 110 funding plan, the state and local shares of a district's basic budget are easily calculated. To determine the per-pupil amount of state aid, each district's per-pupil SEV is simply subtracted from $38,000 in 1973-74, $39,000 in 1974-75 and $40,000 in 1975-76; and the resulting difference is multiplied by the millage levied for operating purposes, up to a maximum of 22 mills in 1973-74, 25 mills in 1974-75 and without limitation thereafter.

Accordingly, in a $19,000 district in 1973-74, each of the first 22 mills levied will bring in $19 per pupil locally and another $19 from the state. In a $37,000 district, each such mill will bring in $37 per pupil locally and $1 from the state; in a $10,000 district, each such mill will bring in $10 locally and $28 from the state.

Two special transition provisions have been added. Since most districts levying less than 18 mills would either lose total-budget dollars or have minimal increases as a result of the change from the deductible-millage formula, such districts will be credited with 2/3 of their under-20-mill deficiency in computing their state aid for 1973-74, and 1/3 of this deficiency in computing their 1974-75 state aid. In addition, to protect certain higher-effort districts from suffering a total-dollar loss, an alternate 1973-74 state aid computation is offered for districts levying 20 mills or more -- a guarantee of an amount equal to their 1973-74 state aid, per pupil minus 20 mills levied on their per-pupil SEV increase in 1973-74.

Other than these provisions, no form of "save-harmless" or "minimum-participation" guarantees are included. (A "no loss of total dollars" clause was contained in the bill passed by the legislature, but certain loopholes and technical problems compelled the Governor to veto it with a request that it be rewritten in a special fall session.) Through separate legislation, the state's largest district, Detroit, was authorized to levy a local-district income tax of up to 1 percent -- to be equated as 6½ mills in the state aid formula -- whenever the total allocated and extra-voted local levy drops below 22 mills. (The technical language of the legislation permitted income taxes in a few other districts lying wholly within municipalities where local income taxes are already levied, but other conditions make it highly improbable that any will be enacted.) Conceivably, future developments could dictate consideration of a similar alternative for other districts.

Moreover, each district will be required to adopt and submit, to the state for review and approval, a balanced budget as a condition of receiving state aid under Senate Bill No. 110. If a deficit existed at the time the bill was signed into law, the district will be required to show a sound plan for retiring its obligations over a reasonable period of time.

Senate Bill No. 110 adds no new non-revenue requirements for local participation. (Such requirements have traditionally been minimal in Michigan.) Aside from existing categorical provisions, it contemplates no distribution of state aid separate from its principal program and contains no related provisions in such areas as salary negotiations, educational accountability, etc.

Its "Equal Yield" concept places financial control almost totally at the local level. Only the experience of future years can determine the feasibility and wisdom of this system; and the need, if any, for state guarantees of a foundation-program nature.

EFFECT ON SELECTED DISTRICTS

Numerous individual-district comparisons could be offered to show both the immediate gain toward equity achieved by Senate Bill No. 110 for 1973-74, and the full effect of the Equal Yield concept when phased in over a three-year period. For comparison purposes, anticipated statewide-average changes in tax base (SEV) and enrollment (membership) have been projected for

each district -- a 6½ percent annual SEV increase and a membership decline of roughly 1 percent in 1973-74, ½ percent in 1974-75, and a negligible membership change in 1975-76.

First, if tax rates remain the same under S.B. 110, three districts of low, medium and high SEV or "wealth" will end up with comparable amounts of money to spend, in combined state membership aid and local tax revenue. For example:

DISTRICT	SEV PER PUPIL	MILLS LEVIED		72-73	73-74	74-76	75-76
Monroe	$32,213	23.9	State Aid	$129	$ 74	$ 47	$ 13
			Local Revenue	770	828	886	943
				$899	$902	$933	$956
Forest Hills	$20,543	24	State Aid	$315	$350	$369	$356
			Local Revenue	493	530	567	604
				$808	$880	$936	$960
Tri-County	$11,506	24	State Aid	$485	$564	$618	$622
			Local Revenue	276	297	318	338
				$761	$861	$936	$960

On the other hand, if it is assumed that the citizens in these three districts are already financing the quality of educational program they desire, and that school spending in all three will rise at a 6 percent annual rate (reflecting cost increases but no program improvement), the effect of the Equal Yield plan will be to permit the low-SEV or "poor" district to lower taxes and require the high-SEV or "rich" district to increase taxes, leaving the tax rate practically unchanged in the medium-SEV district:

DISTRICT	/---1972-73---/ PER PUPIL TOTAL	TAX (MILLS)	/---1973-74---/ PER PUPIL TOTAL	TAX (MILLS)	/---1974-75---/ PER PUPIL TOTAL	TAX (MILLS)	/---1975-76---/ PER PUPIL TOTAL	TAX (MILLS)
Monroe	$899	23.9	$952	25.346	$1,009	25.917	$1,070	26.738
Forest Hills	$808	24	$856	22.928	$ 908	23.279	$ 962	24.059
Tri-County	$761	24	$807	21.228	$ 855	21.925	$ 906	22.659

The "Equal Yield" formula will apply in exactly the same manner to large and small school districts, and to those containing high or low percentages of "high-cost" or underachieving pupils (see Appendix I), with such special categorical provisions as compensatory education and municipal overburden resolving resulting inequities. The essential question remains as to whether existing tax rates represent the effort citizens of any given district are willing to make and will remain relatively static under Senate Bill No. 110, or whether the dollar amounts currently being spent in the schools represent the quality of programs citizens are willing to finance, and will thus increase on a predictable percentage basis as costs increase.

Beyond doubt, for most districts, a blending of these two assumptions will prove to be the case.

The "median" Michigan school district, as has been stated, now levies 24.565 mills and has about $818 per pupil to spend, outside of categorical funding. However, many districts can spend more with less effort, while others must tax themselves more heavily to spend a lower amount.

By 1975-76, under the Equal Yield plan, the median levy will probably still be slightly under 25 mills, but any district

that chooses to make this normal degree of self-taxing effort will have nearly $1,000 per pupil to spend -- up 22.2 percent over a three-year period. Any district levying 30 mills will have $1,200, and any district levying 20 mills will have $800. (See Appendix J.)

Quite probably, a few districts will still levy more than 30 mills, but they will be districts where a majority of voting citizens wish to spend more than $1,200 per pupil. There will be no more districts like, for example, the Ironwood school district (see Appendix I), where a low $10,177 SEV per pupil currently means a levy of nearly 35 mills must be made to permit an $864 expenditure.

There will probably be a number of districts levying less than 20 mills in the third year of the phase-in but that number can be expected to diminish in each subsequent year. Many such low-effort districts, favored by the workings of the deductible-millage formula, have made no attempt to raise their millage for many years. Large annual increases in state aid, combined with steady SEV growth, have been sufficient to cover their cost increases.

Admittedly, the Equal Yield concept of Senate Bill No. 110 can realize its full potential for equity only if certain basic assumptions prove true:

1. That the wide disparities currently existing in operating

millage rates among Michigan school districts are due more to the inherent defects of the deductible-millage formula than to any great differences in either the ability or the willingness of citizens to pay school taxes.

2. That differences in ability to pay school taxes will prove to have been exaggerated, once equal return on equal effort is guaranteed and the potential of the "circuit breaker" is realized. The legitimate differences that do exist can be adequately resolved through such categorical aids as municipal overburden.

3. That differences in willingness to pay school taxes have similarly been exaggerated. Such differences as may remain will reflect little more than local differences in taste or desire for the "extras" of education.

These assumptions boil down to an essential belief, on the part of the sponsors of Senate Bill No. 110, that most citizens will support education if given an equitable chance to do so. Without such support, proponents of the Equal Yield plan argued in four committees and two houses of the Michigan Legislature, no school-financing scheme can really work for long in a representative democracy. Yet concern over the validity of this belief roused bitter controversy for the new concept at each step of its long difficult route to the desk of Michigan's governor.

III -- SENATE BILL NO. 110 IN THE LEGISLATIVE PROCESS

The enacting into law of Michigan's new state school aid distribution system had some side-effects and ramifications that may well prove as basic and far-reaching as the reformed formula itself. In brief summary and retrospect:

1. Individual school districts, having long regarded themselves only as "rich" or "poor" in terms of state equalized valuation, and having involved accomodations and balances of political power based on this yardstick, suddenly found themselves evaluated as "high-effort" or "low-effort" in terms of local taxes levied.

2. As a result of this abrupt change, old accomodations and alliances crumbled. The new accomodations and alliances that might have been formed in opposition to the bill were too hastily contrived and too mistrustful to muster anything more than a prolonged delaying action.

3. The Capitol corps of educational legislative agents or "lobbyists" was similarly divided and forced to realign. Traditionally, state school aid bills have been "packages" combining increases in the deductible-millage formula for the low- and medium-SEV districts with an assorted collection of categorical provisions destined chiefly for the high-SEV districts. In all past efforts to achieve school-financing reform, it had been assumed that this "educational establishment" had to be satisfied,

and that the price of such satisfaction would be high. The Senate Bill No. 110 "Equal Yield" formula, representing no more than a normal annual spending increase and yet demonstrating in the Michigan Senate that it could command majority political support on its own merits, split the lobby corps instead of satisfying it. Four lobbyists worked determinedly for the bill's passage. Perhaps the same number actively, if belatedly, worked in opposition. All others remained neutral.

4. Much the same can be said of the superintendents and other professional administrators of the state. A small number of individuals strongly supported Senate Bill No. 110. A larger number (although representing districts containing far fewer children) vehemently opposed the measure. But for the most part, and as an organized group, administrators did little more than issue wistful and repetitious demands for the type of full-state-funding reform the voters had rejected the previous November.

5. Yet surprisingly enough, the non-professional officials -- the elected school board members -- rose to the occasion with an early endorsement of the Equal Yield concept and continuing efforts to see it enacted. (This group had been far less active than hired administrators in past reform efforts.) To some extent, this development was due to new and very capable staff; more basically, it stemmed from the emphasis on local prerogative and responsibility inherent in the Senate Bill No. 110 concept. In any event, whether temporarily or permanently, the elected school board members clearly established themselves in a role previously usurped by their own hired staff -- as the policy-makers and

policy-spokesmen to the legislature for their local districts.

6. It was also notable that strong support for the bill came from several high-SEV, "out-of-formula" districts that were scheduled to receive no membership aid under its provisions. Such districts, criticized and envied in the past because of their wealth, were evidently relieved to see a reform measure proposed that equated equity with effort, rather than dictating a common expenditure level, and thus permitted their programs to survive. Most Michigan high-SEV districts tend to be high-effort districts as well.

SENATE ACTION

These ramifications became apparent only gradually in the long struggle; and like the length of the struggle itself, were not really predictable. When Senate Bill No. 110 was formally introduced on February 3, 1973, most knowledgeable observers expected it to pass through at least the upper house rather quickly and easily.

By that time, the new formula had been subjected, in a series of 10 public hearings held throughout the state, to more discussion and debate than any of the previous decade's annual state aid bills. It had both management and labor support; the Michigan Education Association had endorsed the bill, and an endorsement from the Michigan Association of School Boards was soon to follow.

Moreover, on the previous December 29th, the Michigan Supreme Court had declared the traditional deductible-millage formula to be in violation of the Michigan Constitution, giving fresh impetus to the need for a reform measure.

Governor William G. Milliken had made it clear that Senate Bill No. 110 embodied his own recommendations. The State Board of Education, the policy-determining body of Michigan's Department of Education, was soon to endorse the concept as well. And Senate Education Committee chairman Gilbert E. Bursley had enlisted a bi-partisan group of 21 other state senators as co-sponsors for the measure -- a firm majority in Michigan's 38-member upper house, evenly split between Republicans and Democrats.

As the Gongwer News Service's Michigan Report commented: "The bill's backing strength is indicated by those who hammered it together: Senate Educational Consultant, Gene Caesar; James Phelps of the Executive Office; and Robert McKerr, Associate Superintendent in the Department of Education."

The first clear opposition to the bill, (led by outstate Republican senators with low-effort districts for whom the deductible-millage system meant more state aid) crystallized shortly after it was reported out favorably by the Senate Education Committee and referred to the Senate Appropriations Committee on February 22. Through the next three weeks, in 15 extended sessions, alternate deductible-millage formulas were proposed as substitutes for the yield-equalizing concept. But on March 19,

the bill was finally reported out of the Senate Appropriations Committee with its Equal Yield formula intact.

Opponents immediately rallied their forces for a floor fight, and their cause seemed to be assisted by the subsequent ruling of the U.S. Supreme Court in the Rodriquez case, which reversed the previous trend toward declaring state school financing system to be in violation of the U.S. Constitution. Expectations were strong that the Michigan Supreme Court, with new members holding the balance of power, would eventually follow suit and reverse its December decision. But the deductible-millage alternates previously proposed in committee were beaten decisively on the floor. On April 5, with favorable votes from 22 senators and at least two more waiting to see if their votes were needed, the reform bill passed the Senate.

THE HOUSE ALTERNATE PROPOSALS

Referred to the Education Committee in the House of Representatives, Senate Bill No. 110 was met with a new type of challenge -- a full state funding plan complete with tax proposals to finance its provisions. But the plan's provisions were too meager to satisfy the organized superintendents and administrators who had been steadfastly urging this type of funding. Without such support, the full-state-funding proposal was voted down in the House Education Committee, and Senate Bill No. 110 was reported out with only certain of its categorical provisions changed.

Assigned to the House Appropriations Committee on May 8, the Equal Yield formula finally met its chief opposition. Determinedly backed by the Democratic leadership in a House composed of 60 Democrats and 50 Republicans, a unique new alternate plan was introduced -- a plan aimed at lowering most Michigan school district operating taxes to a common 20-mill level and establishing a common per-pupil expenditure from membership aid and local revenue (ranging from $1025 to $1150 in different subsequent versions) within three or four years.

The emphasis on local self-taxing effort had been totally reversed. The alternate plan penalized such effort, while offering less fiscal incentive for the below-20-mill districts to increase taxes than existed under the old system. Furthermore, it was far more expensive than the Equal Yield formula. But on June 14, after a vote that saw only one Democratic member refusing to go along with his colleagues, the new alternate was reported out as the Appropriations Committee's recommendation.

THE FINAL RESOLUTION

Its triumph was short-lived. In a subsequent caucus of Democratic House members, it became evident that the alternate did not have this broad-based support necessary to pass it on the floor. Faced with opposition led by members from high-effort districts, and the likelihood of House Republicans closing ranks behind their Governor's recommendations, the House leaders accepted their

Education Committee's recommendations instead and modified them in a more modest manner. Through most of the House floor action, the Equal Yield formula was kept intact and merely expanded with special provisions. But then an amendment was accepted that severely crippled the formula by eliminating its second and third years, thereby erasing any commitment on the part of the State of Michigan to equalize local effort beyond the first 22 mills levied. In this form, on June 29, Senate Bill No. 110 passed the House.

A six-member joint conference committee went to work on July 10. In a series of meetings open to the press and public, 23 identified points of difference in the bill were resolved. The Senate insistence upon a three-year plan prevailed in the end, and the bill was signed into law as Public Act 101 of 1973 on August 14th.

"This act corrects much of what has been wrong with education in Michigan, as well as in much of America," Governor William G. Milliken stated at the signing ceremony.

"It is wrong for three times as much to be spent on the education of children in one school district as in another. This act can and will bring about a dramatic narrowing of the gap without lowering educational quality in high expenditure districts.

"It is wrong for taxpayers in one school district to carry four times as heavy a burden of school support as in another. This act will substantially narrow this gap as well -- again,

without lowering expenditures in wealthy districts.

"Above all, it is wrong that the wealth of a school district should affect either the quality of education a child receives of the tax rates paid by his parents and neighbors. This act will virtually eliminate property tax base wealth as a factor in school finance among districts.

"By the simultaneous enactment of a major tax relief program, built around the circuit breaker concept, the property tax will not only be more equitable for senior citizens and low income persons, but will also be more workable as a revenue source for local school districts.

"Financing reform is extremely vital. But as I pointed out in 1969, true educational reform must go beyond fiscal considerations to the very essential question: 'Is our school system truly relevant to the society it serves?'

"Through strengthening rather than diminishing the degree of self-determination citizens make in their own communities, this act moves toward the goals of financing reform by a route designed to emphasize and improve such relevancy.

"I firmly believe that a majority of citizens in all districts will support their schools if given a fair tax system and a fair system of revenue distribution. I also believe that, without such support, no system could work for long. So in the last analysis, this act is an expression of our faith in the people and our belief in the democratic process."

IV -- LEGAL IMPLICATIONS OF SENATE BILL NO. 110

Following a line of court decisions, the Michigan Supreme Court ruled a previous state school funding system unconstitutional because of its inequities. There are, however, a number of unique features setting this case apart from those in other states.

The Michigan Supreme Court issued an opinion similar in theory to Serrano and Rodriquez. Simply stated, the variation in school expenditures cannot be based on the property tax wealth of a school district. However, the Michigan Court based its decision solely on the state's constitution -- the state equal protection clause and the article outlining the state's responsibility for education. Because the federal equal protection clause was not used, the Michigan Supreme Court is not bound by the United States Supreme Court decision in Rodriquez.

Secondly, the original plaintiffs in the case were the Governor and the Attorney General, who were later joined by a number of other citizens. In contrast, state officials were named as defendants in other states. In Michigan, the State Treasurer and three high expenditure, high property tax base districts were named as defendants.

Most interestingly, the Michigan Supreme Court released its four-to-three opinion on the 29th of December, two days before two of its members left the bench. With two new members on the Court, it accepted a motion to reconsider the original opinion. As yet, no statement has been issued by the Court so there is no way of knowing whether the Court will reaffirm its original position or follow the lead of the United States Supreme Court in Rodriquez and reverse its own decision.

WILL SENATE BILL 110 MEET THE TEST OF THE MICHIGAN SUPREME COURT?

This is a difficult question to answer, partly because no one knows if the original opinion will be upheld. In addition, the Michigan Court, like other courts, did not give exact guidelines as to what would be an acceptable system of school finance. Therefore, there continues to be a great deal of speculation.

Of course, the drafters and supporters of the "yield equalizing" formula believe the Court will accept Senate Bill 110 because it does virtually eliminate the discrimination based on property tax wealth. In addition, it does allow participation of the voter in determining expenditure levels. This issue, usually labelled "local control," was raised extensively by the defendants in the Michigan case as an argument and the majority opinion in Rodriquez as a reason not to rule funding systems constitutional.

The legal theory supporting the "yield equalizing" formula as a constitutionally acceptable remedy proceeds as follows:

1. Previous school aid formulae discriminated against children and taxpayers based on the suspect classification of wealth. The detailed discussion earlier demonstrated the inequities. A review of the Court opinion gives the logic of why the state equal protection clause applies to education and why wealth is a suspect or illegally discriminating classification. (See Appendix K.)
2. The yield equalizing formula virtually eliminates property tax wealth as a reason why school expenditures differ among districts. The formula, previously described, accomplishes this goal over a three-year phase-in, covering about 94 percent of the students in the state. The remaining 6 percent of the students go to school in districts where the property tax base is higher than the equalization level; therefore, those districts receive no state aid.
3. It is sufficient to remove the wealth discrimination, and it is not necessary to require equal, or even substantially equal, expenditures per pupil. The Court, in its opinion, gave some hint as to their feeling. First, it suggested that Constitutional "equity" could be achieved by either perfecting the school aid formula

or by reorganizing districts to achieve equal tax base per pupil. (Of course, equal tax base will not produce equal expenditures if the rate is not the same.) Second, the Court specifically said that equal expenditures were not required and could vary based on reasonable classifications. They cited student need, e.g., Special Education, Vocational Education, etc., as examples. They did not, however, indicate if the vote of the people was a reasonable or suspect classification. This is the crux of the controversy over the constitutionality of the Equal Yield formula.

There are at least two persuasive reasons why "voting" is not a suspect classification. The first reason is found in the State Constitution. Somewhat paradoxically, the Michigan Constitution states that "The Legislature shall maintain and support a system of" public schools; while on the other hand the only way to raise local school revenue over a minimal level is by a property tax millage vote as set forth in another article of the Constitution. If the Court would require equal expenditures it would have to deny the right of referendum given under the "voting" section of the Constitution. It seems doubtful that a court would take away one constitutional right -- one of voting -- to enforce another --

equal protection of the laws. Most likely, the court would read the two sections as being in harmony. The yield equalizing formula is consonant with that harmony.

Second, the U.S. Supreme Court has been asked about the apparent conflict between voting as an alleged source of discrimination and the federal equal protection clause. According to Justice Black, "this procedure (voting) for democratic decision-making does not violate the constitutional command that no state shall deny to any person 'the equal protection of the laws.'" (James v. Valtirra, 91 S CT 1331 (1971)).

This logic, the seemingly public demand for local involvement in school finance -- or so-called local control -- and the narrow voting margin (four-to-three) of the Michigan Supreme Court make a voted local option a virtual legal certainty.

The Court will understandably be asked to review the phase-in nature of the program. Drafters of the bill believe that the Court will accept this transition because without it there would either have to be (1) an increase in state taxes; (2) a substantial number of school districts that would be cut back or, (3) a substantial cutback of categorical funding during the phase-in period. These are thought to be compelling reasons for allowing the transition.

The Court may wish, in addition, to deal with a few school districts still having a wealth advantage. As mentioned before,

about 6 percent of the student population will be in these districts. Although a recapture provision -- sending the excess above $40 per mill back to the state -- is possible, it has not been recommended. The court could either accept this variation as a de minamus or could invoke a recapture provision. Until the concept of power equalizing is tested and the acceptance of a three year phase-in is made, the recapture provision is moot.

Although there has been speculation as to the legal requirements, vis-a-vis capital outlay, Senate Bill 110 applies the equal yield formula to school construction, thus resolving this issue.

By suggesting the legality of Senate Bill 110, there is no intention to imply that it is the only legal solution or that the Court will express no interest. Obviously, there are other solutions. But Senate Bill 110 is the only program to be both legally sound and politically acceptable.

V -- MEMBERSHIP AID AND BONDING ASSISTANCE COMPUTATIONS

Michigan's drastically-changed new state school aid act will eliminate "wealth," in terms of local district tax base, as a factor affecting either the levels of school spending or the taxes paid in support of education.

By 1975-76, it will be possible to project the dollars per pupil available in all but a few ultra-wealthy "out-of-formula" districts without knowing the state equalized valuation per pupil. In addition, all districts receiving membership aid will have exactly the same fiscal incentive for authorizing millage.

This will be accomplished through a state guarantee, in combined membership aid and local revenue, of $38 per pupil per mill for the first 22 mills levied in 1973-74, $39 per pupil per mill for the first 25 mills levied in 1974-75, and $40 per pupil per mill without limitation in 1975-76. To determine the per-pupil amount of membership aid due each district under Section 21 (1), the per-pupil SEV is simply subtracted from $38,000 in 1973-74, $39,000 in 1974-75 and $40,000 in 1975-76; and the resulting difference is multiplied by the millage levied for operating purposes, up to a maximum of 22 mills in 1973-74, 25 mills in 1974-75 and without limitation thereafter.

EXAMPLE #1 Mathias Township projects a 1973-74 per-pupil SEV of $10,884 and will levy 27,345 operating mills. State aid = ($38,000 minus $10,884) x .022 = $596.55 per pupil.

EXAMPLE #2 Plainwell projects a 1973-74 per-pupil SEV of $17,191 and will levy 22 operating mills. State aid = ($38,000 minus $17,191) x .022 = $457.80 per pupil.

EXAMPLE #3 Otsego projects a 1973-74 per-pupil SEV of $16,033 and will levy 20.09 operating mills. State aid = ($38,000 minus $16,033) x .02009 = $441.32 per pupil.

Two special transition provisions have been added to the new formula. To protect any district levying more than 20 mills from suffering a total-dollar loss, an alternate computation is offered under Section 21 (2) -- a guarantee of an amount equal to the 1973-74 per pupil state aid minus 20 mills levied on the per-pupil SEV increase.

EXAMPLE #1 Burt Township projects a 1973-74 per-pupil SEV of $38,740, as compared to $36,502 in 1972-73. Membership aid was $59.96 per pupil in 1972-73. Although the district is now "out-of-formula" and not entitled to aid under the $38 per pupil per mill guarantee, the alternate computation will give the district $15.20 per pupil. $59.96 minus ($2238 x .02) = $15.20.

EXAMPLE #2 Charlevoix projects a 1973-74 per-pupil SEV of $36,437 as compared to $35,637 in 1972-73, and will levy 22.5 operating mills. Membership aid was $73.80 per pupil in 1973-73. Under the basic formula, the district would receive ($38,000

minus $36,437) x .022 = $34.39. However, under the alternate computation Charlevoix will receive $73.80 minus ($800 x .02) = $57.80, or $23.41 more.

EXAMPLE #3 Kalamazoo projects a 1973-74 per-pupil SEV of $34,050, as compared to $29,390 in 1972-73, and will levy 34 operating mills. Membership aid was $170.90 in 1972-73. The alternate computation would give this district $170.90 minus $93.20, or $77.70. However, the basic formula gives the district ($38,000 minus $34,050) x .022, or $86.90; so the basic formula is utilized.

This special provision will apply for the 1973-74 year only.

The second special provision, in Section 21 (3), provides that districts levying less than 20 mills will be credited with 2/3 of their under-20-mill deficiency in 1973-74 and 1/3 in 1974-75 when computing their membership aid.

EXAMPLE #1 Alcona projects a 1973-74 per-pupil SEV of $33,406 and will levy 16.8 mills. The basic formula entitlement would be ($38,000 minus $33,406) x .0168, or $77.18. However, under this provision Alcona will receive ($38,000 minus $33,406) x .018933, or $86.98.

EXAMPLE #2 Limestone Township projects a 1973-74 per-pupil SEV of $25,949 and will levy 16.345 mills. The basic formula would be ($38,000 minus $25,949) x .016345, or $196.97. Under this provision, Limestone would be entitled to ($38,000 minus $25,949) x .018782, or $226.34.

EXAMPLE #3 Munising projects a 1973-74 per pupil SEV of $13,055 and will levy 18.25 mills. Under the basic formula, Munising would receive ($38,000 minus $13,055) x .01825 or $455.25. Instead, Munising will receive ($38,000 minus $13,055) x .019417 or $484.35.

REIMBURSEMENT FOR BONDING-MILLAGE EQUALIZATION

Equalization of millage levied for debt service, under Section 27 of the new act, will begin in 1974-75. Since several alternate proposals were considered by the Legislature, a degree of confusion has resulted from this provision. Certain basic points should be kept in mind:

1. Except for an over-all limit on the number of mills equalized, bonding millage equalization is totally separate from the equalization of operating mills in the basic formula. Under no circumstances will a district receive operating funds on the basis of its bonding levy. Furthermore, since voters approve millage rates for operating but approve an amount of indebtedness for bonding, (for which a local board may then levy millage without limitation), there is a subtle but basic difference between the two forms of equalization. For operating, the state is phasing in a guarantee of equal dollars per pupil per mill. For bonding, the state is phasing in a guarantee of equal mills for equal amounts of bonded indebtedness per pupil. In both cases, the state is equalizing what the voters have approved.

2. Bonding reimbursement will, of necessity, be based on prior year data -- prior year obligations, prior year bonding and

operating millages, prior year SEV per pupil etc. So although the first reimbursement to districts will be made in 1974-75, such reimbursement will be for 1973-74 and will be based on the 1973-74 operating formula. Reimbursement made in 1975-76 will be for 1974-75 and will be based on the 1974-75 operating formula.

3. Since the state is equalizing the voter-approved amount of indebtedness, rather than the millage rate a local board must currently levy to meet that indebtedness, districts will be required to reduce their millages in proportion to the state funds received. Districts receiving reimbursement, in 1974-75, for their 1973-74 bonding levies must reduce 1974-75 levies to the rate needed to repay the remainder of their annual obligation, once state reimbursement is subtracted.

4. The number of mills for which any district can receive equalization, on a current-year basis for operating millage and a prior-year basis for bonding millage, is limited to 22 for 1973-74 and 25 for 1974-75. A district can thus receive, in 1974-75, for 1973-74, bonding millage equalization for no more than that number of mills by which the 1973-74 operating levy fell short of 22. Similarly, a district can receive, in 1975-76 for 1974-75, bonding millage equalization for no more than that number of mills by which the 1974-75 operating levy fell short of 25.

5. The number of mills being equalized, however, is not based on the actual levy in the district but on the number of mills the district would have had to levy had it been a $38,000

SEV district in 1973-74 and a $39,000 district in 1974-75. Accordingly, if an operating levy of 20 mills existed in 1973-74, permitting 2 mills of bonding millage equalization, such reimbursement would fully equalize the obligation of a $19,000 SEV district that levied 4 mills for bonding, a $15,200 district that levied 5 mills, a $12,667 district that levied 6 mills, etc.

To determine the actual amount of reimbursement for bonding millage a district will receive, in 1974-75, the state will first determine, under Section 27 (4) (a), the 1973-74 bonding levy that would have been required to meet the obligation if the district had a 1973-74 SEV per pupil of $38,000.

If a district has obligations under the School Bond Loan program, 1 mill will then be added under Section 27 (4) (b).

Pursuant to Section 27 (4) (c), a 22-mill limit is then placed on the combination of the millage to be equalized here and the operating millage equalized in 1973-74.

The reimbursement will then be determined in exactly the same manner as the 1973-74 operating formula: subtracting the district's SEV per pupil from $38,000 and multiplying the resulting difference by the number of mills to be equalized.

The district receiving such reimbursement must then apply these funds to its 1974-75 obligation and lower its 1974-75 levy for debt retirement accordingly.

Bonding reimbursement made in 1975-76 for 1974-75 will be computed in exactly the same manner, except that the limit will be 25 mills and the SEV used in the computation will be $39,000.

State Representative William R. Bryant, Jr., sponsor of the amendment by which equalization of bonding millage was added to the Bursley Act, offered the following examples of the types of computations that will be made in 1974-75:

EXAMPLE A

$9,500 SEV/pupil '73-'74; 20 mills operating '73-'74.

4 mills debt retirement '73-'74.

Maximum debt retirement mills which can be equalized is 22-20 = 2.

4 x $9,500 = X x $38,000 X = 1

1 + 20 is below 22 so the entire obligation is equalized.

District receives ($38,000 minus $9,500) x .001, or $28.50 per pupil.

Debt retirement levy for 1974-75 will be about 1 mill, as required for remainder of obligation.

EXAMPLE B

$19,000 SEV/pupil '73-'74; 20 operating '73-'74.

6 mills debt retirement '73-'74.

Maximum debt retirement mills which can be equalized is 22-20 = 2.

6 x $19,000 = X x $38,000 X = 3

But only 2 mills can be equalized so...(2 x $38,000) + (Y x $19,000) = (6 x $19,000) Y = 2

Debt retirement '74-'75 is thus 4 mills, 2 of which are entitled to equalization.

EXAMPLE C

$7,600 SEV/pupil '73-'74; 14 mills operating '73-'74.

7.3 mills debt retirement '73-'74 and received in '73-'74 money from state school bond loan, without which the debt service levy would have had to be 10 mills. (A district receiving school bond loan, by present law, must levy at least 7 mills plus 10% of the excess between 7 mills and the debt levy requirement.)

Maximum debt retirement mills which can be equalized in '74-'75 is 22-14 = 9 including 1 mill to repay school bond loan fund for prior loans made.

EXAMPLE C (Continued)

10 x $7,600 = X x $38,000 X = 2

So...debt retirement levy for '74-'75 would be 2 mills, plus 1 mill to be used to repay the state for past school bond loans. The district would not, in '74-'75 receive school bond loans. In this example, for 1974-75, the district, with its new total 3 mill debt levy could raise its operational levy from 14 to as high as 18 and still save money for the taxpayer and still get full guarantee on all mills levied.

EXAMPLE D

$15,200 SEV/pupil '73-'74; 21 mills operating '73-'74.

7.5 mills debt retirement '73-'74 and received '73-'74 school bond loans, without which the debt service levy would have had to be 12 mills.

Maximum debt retirement mills which can be equalized in '74-'75 is 22-20 = 2.

12 x $15,200 = X x $38,000 X = 4.8

But...only 2 mills can be equalized so '74-'75 debt retirement levy would be 2 equalized mills and would be 7 additional unequalized except for school bond loan, but with loan would be 2 equalized plus 5.2 unequalized to a total of 7.2 mills. Because the district still would receive school bond loan in '74-'75 and would be levying at or over 7 mills it would not levy the one mill for repayment of past loans.

EXAMPLE E

Any SEV/pupil '73-'74; 22 mills or more operating.

Any debt retirement mills '73-'74.

No equalized mills '74-'75.

EXAMPLE F

SEV/pupil over $38,000 '73-'74; any mills operating '73-'74.

Any debt retirement mills '73-'74.

No equalized mills '74-'75/

Every school district in Michigan would do well to begin immediate work on a tentative three-year budget projection -- estimating its per-pupil operating expense needs for 1973-74, 1974-75 and 1975-76 in the combined categories of local revenue and state membership aid, its SEV per pupil for each coming year, the operating millage increases or decreases that will be indicated, and any bonding millage reductions that will take place in 1974-75 and 1975-76 if the district is entitled to bonding millage equalization reimbursement. In many cases, voters will be offered an over-all millage reduction when asked to approve an operating millage increase.

APPENDIX A

EVOLUTION OF MICHIGAN'S STRAYER-HAIG OR "DEDUCTIBLE MILLAGE" FORMULA

Year	State equalized valuation behind each child	Gross Allowance	Deductible Millage
1958-59		$190.00	2.75
1959-60		205.00	3.25
1960-61		205 00	3.25
1961-62		205.00	3.25
1962-63		224.00	3.875
1963-64		224.00	3.875
1964-65		236.50	4.25
1965-66	(a) $12,626.00 or more	$255.00	4.6
	(b) Less than $12,626.00	380.00	14.5
1966-67	(a) $12,626.00 or more	$278.00	5.03
	(b) Less than $12,626.00	405.00	15
1967-68	(a) $12,727.00 or more	$294.52	5.28
	(b) Less than $12,727.00	427.87	15.75
1968-69	(a) $21,000.00 or more	$348.00	7
	(b) $12,737.00 to $20,999.99	326.75	5.86
	(c) $9,920.00 to $12,736.99	474.75	17.48
	(d) Less than $9,920.00	499.75	20
1969-70	(a) $12,864.00 or more	$408.00	9
	(b) Less than $12,864.00	549.50	20
1970-71	(a) $15,500.00 or more	$530.50	14
	(b) Less than $15,500.00	623.50	20
1971-72	(a) $17,000.00 or more	$559.50	14
	(b) Less than $17,000.00	661.50	20
1972-73	(a) $17,750.00 or more	$644.00	16
	(b) Less than $17,750.00	715.00	20

APPENDIX B

APPLICATION OF MICHIGAN'S 1972-73 STRAYER-HAIG FORMULA

($644 minus 16 mills for districts above $17,750 SEV
and $715 minus 20 mills for those below.)

Per pupil SEV of district	Amount of state aid per pupil	State-local total with median 24.565 mill levy	Millage needed to have median $818 state-local total	State-local total with low 10-mill levy	State-local total with high 30-mill levy
$10,000	$515	$761	30.3 mills	$615	$ 815
15,000	415	783	26.867 mills	565	865
20,000	324	815	24.7 mills	524	924
25,000	244	858	22.96 mills	494	994
30,000	164	901	21.8 mills	464	1,064
35,000	84	944	20.97 mills	434	1,134

APPENDIX C

EFFECT OF RAISING THE DEDUCTIBLE-MILLAGE IN A STRAYER-HAIG FORMULA

School District	Tax levied	Per-pupil SEV	------- State & Local Total $644-16 mills and $715-20 mills	$860 minus 23.5 mills	---------- $892 minus 25.3 mills
Gwinn Area	10 mills	$ 3,762	$677.38	$809.21	$834.44
Bloomfield #4	10 mills	30,712	459.73	445.39	422.11
Maple Valley	16 mills	9,356	677.58	789.83	804.99
Oliver Township #2	16 mills	32,616	644.00	615.38	588.68
			******		
Vandercook	22.15 mills	9,178	734.73	847.60	863.09
Harbor Springs	22.15 mills	30,741	833.05	818.50	795.16
				******	
Marcellus	24 mills	11,627	761.51	865.82	876.89
Comstock	24 mills	33,580	912.64	876.79	848.35
					******
Concord	26.15 mills	13,211	796.25	895.01	903.23
Melvindale	26.15 mills	28,780	936.12	936.27	916.47
Garden City	30 mills	10,386	818.86	927.51	940.82
Lansing	30 mills	21,393	943.50	999.05	992.55

*** Indicates the point where district wealth ceases to be a disadvantage and becomes an advantage.

APPENDIX D

TRENDS OF MEMBERSHIP, EXPENDITURES, AND TEACHER SALARIES

School Year	Membership	% of Change	General Fund Current Operating Expenditure	% of Change
1963-64	1,856,895		$ 737,201,220	
1964-65	1,917,851	3.3	804,918,730	9.2
1965-66	1,968,413	2.6	918,942,525	14.2
1966-67	2,033,982	3.3	1,077,546,101	17.3
1967-68	2,079,704	2.2	1,239,752,894	15,1
1968-69	2,122,915	2.1	1,391,736,281	12.3
1969-70	2,164,386	2.0	1,573,119,910	13.0
1970-71	2,178,745	0.7	1,790,119,681	13.8
1971-72	2,212,505	1.5	1,935,034,623	8.1
1972-73	2,193,270	(1.0)		
1973-74	2,173,000*	(1.0)*		

School Year	Current Operating Expenditure Per Pupil	% of Change	Average Teacher Salary	% of Change
1963-64	$ 397.01		$ 6,474	
1964-65	419.69	5.7	6,745	4.2
1965-66	466.85	11.2	6,896	2.2
1966-67	529.75	13.5	7,535	9.5
1967-68	596.11	12.5	8,238	9.3
1968-69	655.58	10.0	9,134	10.9
1969-70	726.82	10.9	10,045	10.0
1970-71	821.63	13.0	11,034	9.8
1971-72	874.59	6.4	11,671	5.8

*Estimated

APPENDIX E

PROVISIONS FOR RAISING STATE SCHOOL REVENUE

The state supports its school appropriation from two sources. The earmarked revenues from the sales, cigarette, and liquor tax is approaching $560 million, an increase of 7.9% over the previous year. Table I lists these figures. The balance of the school appropriation comes from the State General Fund. Senate Bill 110 requires an increase of $79.7 million, or 13.4% increase in this appropriation. These figures are listed in Table I.

TABLE I

ESTIMATE OF STATE REVENUE
FOR SCHOOL AID

	1972-73 Appropriation	Required for S.B. 110 - 1973-74	Percent Increase
Earmarked			
Sales Tax (2%)	480.0	520.0	8.3
Cigarette Excise	23.9	24.4	2.1
Liquor Specific	14.5	15.5	6.9
TOTAL EARMARKED	518.4	559.9	7.9
GENERAL FUND	593.5	673.2	13.4
TOTAL	1,111.9	1,233.1	10.9

APPENDIX F

PROVISIONS FOR RAISING LOCAL SCHOOL REVENUE

LOCAL SCHOOL TAXES FOR CURRENT OPERATION

Article 9, Section 6 of the Michigan Constitution sets forth the provisions for imposing property taxes. Schools as well as other units of government are covered by this Section. There is a limit of 50 mills on the property tax levy. Fifteen of the 50 mills may be levied without a vote of the people. The 15 mills is divided among various units of government, including the schools, by a County Allocation Board. According to the law. at least 4.5 mills must be allocated to the schools. The voters of a county may wish to fix the allocation of millage annually without relying on the County Allocation Board. In this event, the fixed allocation cannot exceed 18 mills.

Once the 15 mills or, in the special case, 18 mill limitation is reached, additional millage may be imposed only by a vote of the people, again subject to the 50 mill limit.

Excluded from these limitations are taxes imposed for the payment of bonds and taxes imposed under Charter authorities such as cities and villages.

These are the only taxing limitations. The Legislature has not enacted provisions which would limit expenditure levels or expenditure increases.

The property tax base is called State Equalized Valuation (SEV) which is limited constitutionally not to exceed 50% of the market value. The Legislature defines it as being 50% of the market value. Table II presents the property tax base and rates which are levied by local school districts for a basic educational program. Although there are some levies specifically for special education, vocational education and intermediate school districts, they have not been included.

TABLE II

ESTIMATED REVENUE FROM
LOCAL SCHOOL DISTRICT PROPERTY TAX

	1972-73	1973-74
TAX BASE (SEV)	$44,460,317,654	$47,614,000,000
TAX RATE (MILLS)	24.46	24.46
TAX YIELD (MILLIONS)	$ 1,087.5	$ 1,164.6

PROVISIONS FOR LOCAL PROPERTY TAX ADMINISTRATION

The property tax base is first determined by the local assessor who is charged with appraising the value of the properties to be taxed. The

local assessor is usually an appointed official in a city and is either the township supervisor or someone working under his supervision. He prepares a list of properties with their values as of the last day of the previous year. Because property is supposed to be assessed at 50% of true cash value, each county must develop equalization factors to compensate for any variation in assessing practices which may have taken place in the subunits. If the county equalization factor does not succeed in bringing the property to 50% of true cash value, each county must develop equalization facrors to compensate for any variation in accessing practices which may have taken place in the subunits. If the county equalization factor does not succeed in bringing the property to 50% of true cash value, the State Tax Commission may issue further equalization factors. These steps, exclusive of appeals, determines the SEV for the year.

The taxpayer may appeal his assessment at three levels: (1) the local assessor, (2) the Township or City Board of Review, and (3) the State Tax Commission. The State Tax Commission's decisions are final except in cases of fraud, error of law, or wrong principles. These are the only grounds of appeal to the courts.

APPENDIX G

TAX RELIEF PROGRAM

The Michigan Legislature enacted a tax relief program (Public Acts 19 & 20 of 1973) returning $380 million over a two year period to the citizens of the State. Specifically, this program instituted an excess burden property tax relief program, often called a "circuit breaker," replaced and expanded current property tax relief programs; increased the personal income exemption from $1,200 to $1,500 per dependent; reduced the intangibles tax on bank deposits and saving and loan shares; and reduced business taxes.

The tax reduction was possible because of the rapid expansion of the Michigan economy, the enactment of federal revenue sharing, and the adoption of a state lottery. Originally proposed by the Governor, the program was designed to relieve the equity of the Michigan tax structure, and to provide some measure of relief to all taxpayers in Michigan, both business and individual. A discussion of each of these elements follows:

EXCESS BURDEN PROPERTY TAX RELIEF PROGRAM

The major objective of this element is to reduce property taxes for those individuals, including renters, who pay more than a specified percentage of their income for property taxes. In the future, the amount of property tax relief received by a family or household will depend on the relationship between the amount of property taxes paid on the family's principal residence and the total household income from all sources. Those who pay a larger share of their income in property taxes will receive more tax relief.

Effective with the 1973 tax year, three separate credit schedules are provided. The first is available to all Michigan residents, homeowners, and renters. The amount of tax relief is equal to 60 percent of the excess of property taxes paid on the principal residence over 3.5 percent of total household income from all sources. For example, a family with an income of $10,000 and a house with a market value of $20,000 will pay property taxes of $500 (at the state average tax rate) and be entitled to a credit of $90. The calculation is made this way: First, subtract 3.5 percent of $10,000 from $500, [$500 - $10,000 x .035 = $500 - 350 = $150]. Then multiply $150 by 60 percent, [$150 x .60 = $90].

The second schedule is available only to senior citizens [age 65 or over]. The amount of relief is determined by the following schedule:

if income is under $3,000	--	100% of the property tax is rebated
if income is from $3,000 to $4,000	--	100% of the property tax less 1% of income is rebated
if income is from $4,000 to $5,000	--	100% of the property tax less 2% of income is rebated
if income is from $5,000 to $6,000	--	100% of the property tax less 3% of income is rebated
if income is over $6,000	--	100% of the property tax less 3.5% of income is rebated

In each of the first two schedules, 17 percent of rent is considered to be property tax and the maximum rebate or credit granted is $500.

The third schedule is available only to disabled veterans and the blind who are homeowners. This schedule is similar to the former homestead tax exemptions in that the amount of relief is equal to the same share of property taxes as the homestead exemptions provided. The formula is:

$$\text{relief} = \text{property taxes} \times \frac{\text{state equalized value exemption}}{\text{state equalized value of home}}$$

The state equalized value exemption is the same as provided in the former homestead exemptions -- $3,500 for the blind and from $2,500 to $4,500 for for veterans. This credit is also limited to $500.

Two special points need to be noted. First, it is possible to receive both the homestead exemption and the excess burden property tax relief credit for the 1973 tax year, if, after receiving the homestead exemption, a taxpayers' property taxes still exceed the specified percentage of his total household income. Second, farmers may include their farmland, buildings and equipment with their residence in calculating their relief, provided that the gross receipts from their farm operations at least equals total household income. This provision provides relief to all full-time and most part-time farmers but not to land speculators.

The property tax relief will be received by taxpayers either as a credit against their state income tax liability, or, if the property tax relief they are entitled to exceeds their income tax liability, they will receive a refund in the same manner as income tax refunds are now received. Those entitled to property tax relief who do not file an income tax return can apply for their relief directly on a short, simple form to be provided by the Department of Treasury.

INCOME TAX REDUCTIONS

The personal exemption in the state individual income tax has been increased (effective Jan. 1, 1974) from $1,200 to $1,500 per person [$2,400 to $3,000 for the blind and senior citizens]. Applied to the personal income tax rate of 3.9 percent, this means a tax savings of $11.70 for each exemption.

By increasing the personal exemption, rather than reducing the income tax rate, low and moderate income families will receive greater tax savings. The increased exemption also makes the state income tax more responsive to economic growth than would an equivalent rate reduction.

BUSINESS INVENTORY TAX CREDIT

All Michigan business firms have been granted a credit against their income tax equal to 25 percent of the property tax on the inventory portion of their personal property. This is also a "negative credit" not limited to the current year's income tax liability. Those few firms without inventories can claim a credit equal to 20 percent of their corporate franchise tax. The reduction is effective Jan. 1, 1973 and can be claimed on tax returns filed in 1974.

INTANGIBLES TAX REDUCTIONS

The exemption allowed individuals on their intangibles tax return has been increased from $100 to $175 ($350 for a couple filing a joint return). This part of the intangibles tax is similar to an income tax on income from bonds, stocks, bank accounts, interest, etc. The provision will lessen the double taxation effect of the intangibles tax.

The tax rate on bank deposits and the shares of Savings and Loan Associations has been reduced from 50¢ to 40¢ per $1,000. This tax is legally levied on depositors but has been paid by financial institutions as a convenience to their customers. Both of the changes in the intangibles tax are effective immediately.

In summary taxes will be reduced $380 million over the next 2 fiscal years:

Estimated Cost of Tax Program
(millions of dollars)

	1973-74	1974-75	Two Year Total
Excess Burden property tax relief credit	224	224	448
Less: Repeal of current property tax relief provisions	(145)	(150)	(295)
Net property tax relief	79	74	153
Increased personal exemptions	25	96	121
Business inventory tax credit	45	49	93
Intangibles tax - Individuals	4	4	8
Banks & financial institutions	2	2	4
TOTAL	155	225	380

APPENDIX H

STATE SCHOOL AID EXPENDITURES IN MICHIGAN: 1968-69 to 1973-74

	1968-1969 Actual	1969-1970 Actual	1970-1971 Actual
STATE EQUALIZED VALUATION	$32,043,853,089	$35,093,000,000	$38,546,000,000
MEMBERSHIP	2,122,915	2,164,385	2,178,745
FORMULA	$348 - 7 $21,000 SEV $326.75 - 5.86 $12,737 SEV $474.75 - 17.48 $9,920 SEV $499.75 - 20	$408 - 9 $12,864 SEV $549.50 - 20	$530.50 - 14 $15,500 SEV $623.50 - 20
Formula	$534,569,333	$590,270,056	$628,912,000
Grandfather	(in formula)	(in formula)	12,973,000
Court Wards & Misc.	2,707,895	2,436,583	1,512,000
Municipal Overburden	11,000,000	13,000,000	20,000,000
Compensatory Ed. (Sec. 3)	5,761,890	9,163,180	14,222,000
Compensatory Ed. (Sec. 4)	1,868,156	75,000	-0-
Math Program	-0-	-0-	232,000
Remedial Reading	5,000,000	5,435,000	5,000,000
Special Education	30,000,000	41,250,000	48,800,000
Transportation	22,000,000	26,000,000	28,268,000
Intermediate Districts	3,229,567	4,100,000	4,500,000
Tuition	300,000	150,000	150,000
Bankrupt Districts	-0-	822,600	822,600
Parochiaid	-0-	-0-	8,172,000
Retirement	146,732,065	149,531,120	155,210,000
TOTAL	$763,268,906	$842,233,539	$928,413,600

	1971-1972 Actual	1972-1973 Estimated	1973-1974 Estimated
STATE EQUALIZED VALUATION	$41,626,714,499	$44,468,875,814	$47,614,000,000
MEMBERSHIP	2,212,505	2,193,270	2,173,000
FORMULA	$599.50 - 14 $17,000 SEV $661.50 - 20	$644 - 16 $17,750 SEV $715 - 20	$38 per pupil per mill up to 22 mills.
Formula	$685,239,082	$725,048,165	$771,299,976
Grandfather	10,000,000	-0-	1,102,053
Under-20-mill phase-in	-0-	-0-	9,248,492
Annexation guarantee	(in formula)	400,000	400,000
Court Wards & Misc.	3,435,570	4,700,000	4,700,000
Municipal Overburden	20,000,000	20,000,000	24,000,000
Compensatory Education	22,500,000	22,500,000	22,500,000
Performance Contracting	500,000	500,000	500,000
Math Program	225,000	247,400	250,000
Learning Disabilities	-0-	1,650,000	(in Spec. Ed.)
Reading Programs	3,151,[illegible]	2,350,000	4,000,000
Neighborhood Centers	-0-	-0-	500,000
Academically Talented	-0-	-0-	150,000
Problem Juvenile Programs	-0-	-0-	500,000
Special Education	55,000,000	67,000,000	100,000,000
Vocational Education	3,000,000	8,000,000	17,500,000
General Transportation	31,600,000	32,400,000	39,400,000
Voc. Ed. Transportation	1,000,000	1,700,000	2,500,000
In-city Transportation	-0-	-0-	1,500,000
Intermediate Districts	5,499,998	6,400,000	8,350,000
Media Centers	-0-	-0-	700,000
Co-operative Programs	-0-	-0-	650,000
Ed. Comm. of States	-0-	18,500	18,500
Pregnant Students	300,000	300,000	(in Spec. Ed.)
Community Schools	-0-	1,000,000	1,000,000
Bankrupt Districts	822,600	617,000	421,000
Retirement	206,468,838	233,437,000	240,550,000
GROSS TOTAL	$1,048,742,544	$1,128,268,015	$1,251,740,021
Less Contingency	29,520,159		
Less Federal Funds		17,000,000	16,000,000
NET STATE AID	$1,019,222,385	$1,111,268,015	$1,235,740,021

APPENDIX I

INDIVIDUAL DISTRICT COMPARISONS UNDER THE S.B. 110 "EQUAL YIELD" FORMULA

Although the following five school districts vary widely in nature as well as size, all currently spend roughly the same amount per pupil in combined state membership aid and local tax revenue. Assuming a 6.5 percent annual SEV increase and membership declines of 1 percent in 1973-74 and 0.5 percent in 1974-75, the amounts spent will vary considerably under S.B. 110 if the varying tax rates remain unchanged.

DISTRICT	NUMBER OF PUPILS	TAX BASE (SEV) PER PUPIL	TAX LEVIED (MILLS)		72-73	73-74	74-75	75-76
WAYNE	23,927	$15,106	36.6	State	$413	$479	$541	$787
				Local	554	594	636	677
					$966	$1,073	$1,177	$1,464
REDFORD UNION	8,775	$15,922	35.65	State	$396	$459	$517	$787
				Local	568	610	653	695
					$964	$1,069	$1,170	$1,426
ST. JOSEPH	4,251	$27,708	27.67	State	$201	$181	$178	$168
				Local	767	824	882	939
					$968	$1,005	$1,060	$1,107
GODWIN HEIGHTS	3,275	$37,724	24.6	State	$ 40	$-0-	$-0-	$-0-
				Local	928	998	1,067	1,137
					$968	$998	$1,067	$1,137
BOYNE FALLS	301	$30,755	26.5	State	$152	$109	$ 91	$ 62
				Local	815	876	937	998
					$967	$985	$1,028	$1,060

On the other hand, a comparison could readily be made showing the tax rates that would be required in these districts to provide a 6% annual increase in total dollars. Since all spend roughly the same amount, such an annual increase would require about $1,151 per pupil for all in 1975-76, and would necessitate a tax rate of 28.775 mills -- a slight increase for St. Joseph and Boyne Falls, but a substantial amount of tax relief for Wayne and Redford Union.

The Godwin Heights district offers an example of a district moving "out of formula" during the 3-year phasing-in process of the Equal Yield Plan. The $38,000 SEV level to which all districts are literally raised by the S.B. 110 formula represents the 97th percentile in 1972-73; only 3% of Michigan students live in wealthier districts. However, the increase in the guarantee level permitted by projected revenue growth (projected at 9%) will not be sufficient to maintain the 97th percentile as a guarantee level while simultaneously expanding the number of mills to which the guarantee is applied. A number of districts will move out of formula through the phase-in process, and the guarantee level of $40,000, when applied to unlimited millage in 1975-76, will probably represent the 93rd, rather than the 97th, percentile.

However, beginning in 1976-77, the increase in the guarantee level can be expected to begin exceeding the average SEV-per-pupil increase; and the percentile will again be rising, with districts moving into the formula rather than out.

Since Michigan provides special categorical funding for larger-than-average portions of "high-cost" or underachieving pupils, the S.B. 110 "Equal Yield" formula makes no special allowance for this factor. All children in the state's 4th and 7th grades are tested annually, and the percentage of those scoring in the lowest 15th percentile is utilized in determining such "compensatory" funding.

DISTRICT	LOW SCORING PUPILS	TAX BASE (SEV) PER PUPIL	TAX LEVIED (MILLS)		72-73	73-74	74-75	75-76
HIGHLAND PARK	43.93%	$24,669	36.9	State	$249	$252	$266	$361
				Local	910	979	1,047	1,115
					$1,159	$1,231	$1,313	$1,476
GIBRALTAR	14.19%	$25,015	22.9	State	$243	$244	$234	$214
				Local	573	616	659	702
					$816	$860	$893	$916
MANISTEE	5.49%	$24,659	19.65	State	$249	$228	$210	$192
				Local	485	521	557	594
					$734	$749	$767	$786

Once again, it can be assumed that the Highland Park district will not require an increase this substantial and that the tax levy in the district will be reduced accordingly. A 6% annual increase would require $1,380 per pupil in 1975-76, which could be realized with a 34.5 mill levy. The Gibraltar and Manistee districts, spending much less at present, could have 6% annual increases with levies of 24.3 and 21.855 mills respectively in 1975-76.

The three districts compared above could well give the impression that a large portion of underachieving pupils necessitates higher operating costs -- over and above the extra $200 per underachieving pupil in grades K-6 provided by the state. However, this assumption is not verified in any comprehensive sampling. For example, the following districts might be considered:

DISTRICT	LOW SCORING PUPILS	TAX BASE (SEV) PER PUPIL	TAX LEVIED (MILLS)		72-73	73-74	74-75	75-76
BALDWIN	43.85%	$34,381	21.15	State	$ 93	$ 23	$-0-	$-0-
				Local	727	821	836	891
					$820	$824	$836	$891
BRIMLEY	42.49%	$10,709	13.95	State	$500	$476	$426	$375
				Local	150	161	172	183
					$650	$637	$598	$558
ALBA	41.37%	$31,808	23.53	State	$135	$ 87	$ 57	$ 24
				Local	748	805	861	917
					$883	$892	$918	$941

GROSSE ILE	3.85%	$21,524	34.8	State	$299	$327	$356	$474
				Local	749	805	862	918
					$1,0-8	$1,132	$1,218	$1,392
IRONWOOD	2.74%	$10,177	34.8375	State	$511	$595	$682	$959
				Local	353	380	408	434
					$864	$975	$1,090	$1,393

Here, in contrast to the previous comparisons offered, the districts with the highest portion of "high-cost" pupils are spending the lowest amounts -- over and above the special compensatory funding. Accordingly, it might be concluded that such special funding represents roughly the added-costs amount the districts are incurring in their compensatory programs, within a reasonable degree of variation.

APPENDIX J

THREE-YEAR PROJECTIONS OF STATE-LOCAL TOTAL DOLLARS PER PUPIL UNDER THE S.B. 110 "EQUAL YIELD" FORMULA.
(The figures below do not include state categorical aids.)

Local Effort In Terms of Operating Mills Levied

	Wealth in Terms Of Per-Pupil SEV	14	16	18	20	22	24	Median ↓ 26	28	30	32	34	36
		519,349 children ---/									/---339,631 children		
1972-73	$ 5,000	$685	$695	$705	$715	$725	$735	$745	$755	$765	$775	$785	*$795*
	10,000	655	675	695	715	735	755	775	795	815	835	855	*875*
	15,000	625	655	685	715	745	775	805	835	865	895	925	955
Average →	20,000	604	644	684	724	764	804	844	884	924	964	1004	1044
	25,000	594	644	694	744	794	844	894	944	994	1044	1094	1144
	30,000	584	644	704	764	824	884	944	1004	1064	1124	1184	*1244*
	35,000	574	644	714	784	854	924	994	1064	1134	1204	*1274*	*1344*
1973-74	$ 5,000	*$664*	$696	$728	$760	$836	$846	$856	$866	$876	*$886*	*$896*	*$906*
	10,000	*644*	683	721	760	836	856	876	896	916	936	*956*	*976*
	15,000	624	669	715	760	836	866	896	926	956	986	1016	1046
	20,000	*604*	656	708	760	836	876	916	956	996	1036	1076	1116
	25,000	*584*	643	701	760	836	886	936	986	1036	1086	1136	1186
	30,000	*584*	629	695	760	836	896	956	1016	1076	1136	1196	*1256*
	35,000	*644*	616	688	760	836	906	976	1046	1116	1186	*1258*	*1326*
1974-75	$ 5,000		*$669*	$725	$780	$838	$936	$980	$990	*$1000*	*$1010*	*$1020*	*$1030*
	10,000		*663*	721	780	858	936	985	1005	*1025*	*1045*	*1065*	*1085*
	15,000		*656*	718	780	858	936	990	1020	1050	1080	1130	*1160*
	20,000		*649*	715	780	858	936	995	1035	1075	1115	1155	1195
	25,000		*643*	711	780	858	936	1000	1050	1100	1150	1200	1250
	30,000		*636*	708	780	858	936	1005	1065	1125	1185	1245	1305
	35,000		*629*	705	780	858	936	1010	1080	1150	1220	*1290*	*1360*
1975-76		49,973 children----/									/----83,464 children		
	$ 5,000		*$640*	$720	$800	$880	$960	$1040	*$1120*	*$1200*	*$1280*	*$1360*	*$1440*
	10,000		*640*	720	800	880	960	1040	1120	*1200*	*1280*	*1360*	*1440*
	15,000		*640*	720	800	880	960	1040	1120	1200	*1280*	*1360*	*1440*
	20,000		*640*	720	800	880	960	1040	1120	1200	1280	*1360*	*1440*
	25,000		*640*	720	800	880	960	1040	1120	1200	1280	*1360*	*1440*
	30,000		*640*	720	800	880	960	1040	1120	1200	1280	1360	1440
	35,000		*640*	*720*	800	880	960	1040	1120	1200	1280	1360	1440

* *Figures in italics are hypothetical projections; it is not anticipated that any districts will be in these specific wealth-effort categories.*

In 1972-73, there were 519,349 "in-formula" children in districts levying less than 20 mills. If the lowest-spending of these districts will require a 6% annual increase and will work successfully where needed to see essential millages enacted, this number will be reduced to 49,973 by 1975-76.

In 1972-73, there were 339,631 "in-formula" children living in districts levying more than 30 mills. If the highest-spending of these districts will limit cost increases to the same 6%, this number will be reduced to 83,464 by 1975-76.

(A 6.5% annual SEV increase and membership declines of 1% in 1973-74 and 0.5% in 1974-75 are projected.)

APPENDIX K

SUMMARY OF MICHIGAN SUPREME COURT OPINION (MILLIKEN v. GREEN) ON 1971-72 STATE SCHOOL AID ACT

1. The Issue

"The only real question this provision leaves open is whether or not the Legislature's action maintains and supports free public schools equally or, if not equally, with valid classifications." (P. 3)

2. State control and responsibility.

"The State clearly has responsibility for financing public school education in Michigan. The 1963 Michigan Constitution, Art 8, S 2 reads:

'The legislature shall maintain and support a system of free public elementary and secondary schools as defined by law...' " (P. 4)

3. Inherent inequality in school district property tax bases.

"There is an inherent inequality in the school district property tax bases which creates unequal support for the education of Michigan children. The inequality has been recognized in legislation for years." (P. 7)

4. State school aid does not equalize property tax inequality.

"The state school aid formula does not compensate for the recognized basic inequality inherent in the differences in the property tax bases of the 624 Michigan school districts." (P. 9)

"In conclusion, the inequalities between school districts in their ability to finance an education for their school children are sufficiently common and severe to conclude that even with the equalizing efforts of the Michigan school aid formula, the inherent differences in the property tax bases of the school districts prevent equal resources for the education of Michigan school children in a substantial number of school districts." (P. 14)

5. "Equal Protection"

"The heart of this case is to confront the law of 'equal protection' with the reality of the inequality inherent in the Michigan public school financing system." (P. 15)

*To accomodate brevity and accuracy, the analysis summarizes each section of the opinion by giving the heading and selected quotations.

"It is elementary that the law of equal protection involves two different tests depending upon the interest concerned. Where the interest involved is an ordinary one, a court only inquires whether there is a 'rational' relationship between the classification established by the statute under scrutiny and a legitimate state objective. Where a fundamental interest is affected or a classification is inherently suspect, then it must appear that the classification under scrutiny is necessary for the achievement of a 'compelling state interest.' Furthermore, it must appear that the classification is specifically fashioned to further the purpose it is designed to accomplish. And very importantly there is an ultimate test. The state must prove there is no less onerous alternative by which its objective may be achieved." (P. 150)

5a. Education in Michigan a fundamental interest.

"The fundamental interest of the People in Michigan in education is expressed in our history and in our Constitution. The 1963 Michigan Constitution establishes the People's fundamental interest in education in a number of ways, but significantly in that it devotes an entire article to education, Article 8." (P. 15)

"In light of the People's concern and direct provision for education in the Constitution, this Court is compelled to recognize education as a fundamental interest under the Michigan Constitution requiring close scrutiny of legislative classifications concerning the distribution of educational resources." (P. 16)

5b. Wealth, a suspect classification involved

"Classification on the basis of wealth is considered 'suspect' especially when applied to fundamental interests." (P. 17)

"The State Aid Act as well as the local school district property taxes are based on the classification of the state equalized valuation per pupil in the school districts. This is therefore an educational classification solely on the basis of wealth per educational unit (pupils) and puts the classification in the suspect category requiring the stricter standard of scrutiny." (P. 18)

5c. "Compelling State Interest"

"There can be no 'compelling state interest' claimed for the classifications based on wealth resulting in the inequalities connected with the distribution of public school funds pursuant to the mandate of Const 1963, art 8, s 2 other than local control." (P. 18)

"Local control is the interest asserted by Defendants as justification for the district wealth classification under either constitutional test." (P. 18)

"Assuming for a moment that the Michigan public school finance system as a whole is properly fashioned to further the general purpose

it was designed to accomplish, there remains the question of whether the State interest in local control may be served by a less onerous alternative than measuring the amount of local control in terms of raising local revenues based on the value of property per student in a school district. The burden is here upon those defending the classification once its unequal results are shown. There was no such effort made, but it is clear from the admitted progressively more 'equalized' public school finance laws year by year, (including those after 1970 PA 100) that greater equality can be achieved. Greater equality is clearly potentially available on the one hand through perfecting the deductible millage formula and on the other hand through the reformation of the taxing and expenditure boundaries of school districts. There may by other ways as well." (P. 19)

5d. "Rational Test"

"While the stricter 'compelling state interest' test must be applied because of the existence of a 'fundamental interest and a suspect classification,' the state public school financing system also fails to pass the test of 'rationality.' This means that the substantial inequalities in school district revenues derived from a composite system relying heavily on state equalized values per pupil is not justified by some reational relationship between the purpose of state maintenance and support of public schools and the fact that a school district happens to have more or less state equalized value per pupil within its boundaries." (P. 20)

"This Court sees no logical connection between the asserted justification of 'local control' and the amount of school funds the state distributes to or permits to be expended in a school district based solely on the fortuitous circumstance that the district has more or less valuable properties per pupil within its borders." (P. 20)

"To sum it all up there is no internal rationality between State distribution of funds to school districts on the basis of SEV per pupil and grossly disparate state equalized value per pupil of school districts. Furthermore, the seemingly plausible argument of local control to permit school districts to opt for the greener pastures of education is really a heavy yoke for all school districts to bear and adds up to the major share of the State's burden to 'maintain and support' free public schools. For the poorer school districts it is a hoax that they can follow the richer school districts into the green pastures. All in all, this Court finds no rationality justifying the substantial inequalities found." (P. 21)

6. Limits of decision

"The ruling in this opinion, for example, should not be misinterpreted to require absolute equality in the distribution of state educational resources in all cases with no recognition of reasonable classifications." (P. 22)

"We have now held that the basic allocation of funds provided for in the public school financing system as it existed at the commencement

of this suit denies the equal protection of the laws. However, since that time a wholly new and different allocation formula is on the books, 1972 PA 258. Whether the public school financing system with this as a component still denies equal protection of the laws has not been and is not before us." (P. 25)

"While there is no fair or effective way of testing and enforcing our decision with respect to the present school district taxes just levied on the school aid formula already authorized, this Court will stand ready upon adoption of a new school aid formula and before levy of school taxes to entertain, if that is in order, a petition to test the new combined public school financing system, and, if appropriate, fashion suitable orders." (P. 26)

APPENDIX L

HIGHLIGHTS OF SENATE BILL NO. 110 (PUBLIC ACT 101 OF 1973)

Sec. 1. Renames the act.

Sec. 5. Beginning in 1974-75, membership is to be determined as the average of two counts made on the fourth Friday of September and the first Friday of May, rather than the single fourth Friday after Labor Day count now used.

Sec. 11. The state aid appropriations will be made totally continuous. At present the appropriation from the state aid fund to the districts is continuous but the general fund appropriation needed to supplement the state aid fund requires annual legislative action. If for some reason the Legislature failed to enact a state aid bill, funding would continue on the basis of the prior year's bill for less than half the following school year and then the state school aid fund would be depleted. With the new language, the schools are guaranteed the level of funding written into the bill if the Legislature fails to act for any reason.

Sec. 21. (1) Provides a formula guarantee of $38 per pupil per mill up to 22 mills in 1973-74, $39 per pupil per mill up to 25 mills in 1974-75, and $40 per mill without limitation thereafter.

(2) Over-20-mill districts may utilize an alternative compilation of last year's state aid minus 20 mills on their SEV increase.

(3) Under-20-mill districts will be credited, in the formula computation, with 2/3 of their under-20-mill deficiency in 1973-74, and 1/3 in 1974-75.

(6) The annexation guarantee has been retained at $400,000.

Sec. 22. The Detroit School District income tax receives a 6.5 mill credit in the formula.

Sec. 23. For inmate pupils, the Department of Corrections receives a $836 gross allowance.

Sec. 25. Municipal overburden is computed in exactly the same way as in 1972-73, with an increase from $20 million to $24 million.

Sec. 26. No district can be funded under more than one of the following provisions: Sec. 21 (2), (3), (6) and Sec. 25.

Sec. 27. Beginning in 1974-75, districts will receive assistance for bonding millage on a similar basis as for operating except that prior-year data and the prior-year formula will be utilized. Districts will be reimbursed only to the extent that their combined operating and bonding millages do not exceed the 22 and 25 mill levels and will be required to reduce bonding levies in accord with such reimbursement. Districts cannot receive both these funds and Sec. 21 (3) or (6).

Sec. 39a. Districts failing to meet performance objectives in the current compensatory program will retain funding if alternate programs are instituted under department supervision.

Sec. 43. Remedial reading and reading disabilities programs have been combined with a $4 million allocation and new requirements for accountability.

Sec. 46. $500,000 for neighborhood education centers operating by domestic, non-profit corporations.

Sec. 47. $150,000 for academically talented programs.

Sec. 48. $500,000 for juvenile rehabilitation programs.

Sec. 51. For special education a total authorization of $100 million is made including $16 million in federal funds not guaranteed by the state. Up to $10.4 million of this amount will be distributed to compensate for the deficiency in federal funds in 1972-73.

Sec. 61. Added cost funding for vocational education has been increased from $8,000,000 to $17,500,000.

Sec. 75. Funding has been increased from $1,700,000 to $2,500,000. This will permit a full payout of the 75% of approved cost formula.

Sec. 77. The promise made by the Legislature to begin funding in-city transportation in the token amount of $1,500,000 has been honored.

Sec. 78. With a cap of $43,400,000 for all transportation, a total of $39,400,000 is provided for general transportation. This, for the first time in many years, is sufficient to pay out the 75% of approved cost formula fully.

Sec. 81. Intermediate districts shall be funded under a new formula of $8 minus 2/10 of a mill except that districts with lesser constitutionally fixed millages may use such fixed millages as deductibles. Districts are guaranteed an increase of 10% but not more than $1.50 per pupil.

Sec. 83. $700,000 for media centers.

Sec. 84. $650,000 to local districts for cooperative programs with intermediate districts.

Sec. 101 (4) The 10 mill requirement for full state aid has been deleted, since under the equalized yield concept state aid is proportionate to local effort and millage requirements are meaningless.

Sec. 102. Districts must adopt balanced budgets and submit them to the department before October 1. State aid can be withheld if this requirement is not met but a district that shows a plan for retiring an existing deficit will not be penalized.

Sec. 137. A reference is made here to the advance and loan provisions recently enacted by the Legislature for Detroit since they differ in nature from the advance and borrowing provisions already in the state aid act.

Sec. 142. Continuing a phase-out provision, bankrupt district funding is reduced from $617,000 to $421,000.

Sec. 171-173. Retirement is funded on a level line basis at 13% of total payroll with a $240,550,000 appropriation for 1973-74.

APPENDIX M

TEXT OF MICHIGAN'S REVISED STATE SCHOOL-AID ACT
(Public Act 258 of 1972, as amended by Public Acts 2, 53 and 101 of 1973)

CHAPTER 1

AN ACT to make appropriations for the purpose of aiding in the support of the public schools and the intermediate school districts of the state; to provide for the disbursement of the appropriations; to permit school districts to borrow in anticipation of the payment of state aid and to regulate the effect thereof; to provide penalties for violation of the act; to supplement the school aid fund by the levy and collection of certain excise taxes; and to repeal certain acts and parts of acts.

Sec. 1. This act shall be known and may be cited as the "Gilbert E. Bursley school district equalization act of 1973".

Sec. 5. (1) "State board" means the state board of education.

(2) "Intermediate board" means the board of education of an intermediate school district.

(3) "Board" means the board of education of a local school district.

(4) "Intermediate superintendent" means the superintendent of an intermediate school district.

(5) "District superintendent" means the superintendent of a local school district.

(6) "District" means a local school district.

(7) "School code of 1955" means Act No. 269 of the Public Acts of 1955, as amended, being sections 340.1 to 340.984 of the Michigan Compiled Laws.

(8) "Pupil" means a child in membership in a public school.

(9) "Elementary pupil" means a pupil in membership in grades K-8 in a district not maintaining classes above the eighth grade or in grades K-6 in a district maintaining classes above the eighth grade.

(10) "High school pupil" means a pupil in membership in grades 7-12, except in a district not maintaining grades above the eighth.

(11) "Membership" means the number of full-time equivalent pupils as determined by the number of pupils registered for attendance plus pupils received by transfer and minus pupils lost as defined by rules promulgated by the state board.

(12) "Full-time membership" means the average of all pupils in grades K-12 actually enrolled and in regular daily attendance on the fourth Friday of September and the first Friday of May of each school year, except that, in a school district operating an extended school year program approved by the state board of education, a pupil enrolled, but not scheduled to be in regular daily attendance on the count day, shall be counted. The department shall give a uniform interpretation of the full-time membership and memberships other than full-time. The multi count date will not take effect until the 1974-75 school year. Full-time membership for the 1973-74 school year means all pupils in grades K-12 actually enrolled and in regular daily attendance on the fourth Friday following Labor day of the school year.

(13) "Elementary tuition pupil" means a child of school age attending school in grades K-6 in a district other than of his residence and whose tuition is paid by the board of the district of his residence or a child enrolled in grades 7 or 8 in a district not operating grades above the eighth.

(14) "High school tuition pupil" means a child of school age attending school in grades 7 or 8 in a district other than of his residence which maintains grades above the eighth or in grades 9-12 in a district other than of his residence and whose tuition is paid by the board of the district of his residence.

(15) "Department" means the state department of education.

(16) "Intermediate district" means an intermediate school district.

(17) "Vocational education" means education programs approved for funding under chapter 6, or under the federal vocational education act of 1963, Public Law 88-210, or both, and includes programs described as "occupational education" and "career development" in other acts.

(18) "Extended school year" means an educational program conducted by a local school district in which students must be enrolled but not necessarily in attendance, on the fourth Friday of September in an extended year program. The mandatory days of student instruction and prescribed clock hours must be completed by each student not more than 365 calendar days after his first day of classes for the school year prescribed. The department shall prescribe pupil, personnel, and other reporting requirements for the educational program.

Sec. 7. The state board shall promulgate rules necessary to implement this act in accordance with and subject to Act No. 306 of the Public Acts of 1969, as amended, being sections 24.201 to 24.315 of the Compiled Laws of 1948.

Sec. 11. There is appropriated from the school aid fund established by section 11 of article 9 of the constitution of the state for the fiscal year ending June 30, 1974, and for each fiscal year thereafter, the sum necessary to fulfill the requirements of this act. There is appropriated from the general fund for the fiscal year ending June 30, 1974, and for each fiscal year thereafter, the sum necessary to meet any deficiency. The appropriation shall be allocated as provided in this act.

Sec. 12. (1) For the purpose of supplementing the school aid fund established by section 11 of article 9 of the constitution of the state, there shall be levied and collected, and there is imposed, in addition to all taxes now imposed by law an excise tax equivalent to 4% of the retail selling price of spirits, as defined in section 2 of Act No. 8 of the Public Acts of the Extra Session of 1933, as amended, being section 436.2 of the Compiled Laws of 1948, other than those containing an alcoholic content of less than 22%. The tax shall be collected by the state liquor control commission at the time of sale by the commission. In the case of sales to licensees, the tax shall be computed on the retail selling price established by the commission without allowance of discount.

(2) Upon collection the state liquor commission shall deposit the entire proceeds in the state treasury to the credit of the school aid fund.

Sec. 13. The apportionments, and limitations thereof, made under this act shall be made on the membership and number of teachers and other professionals approved by the superintendent of public instruction, employed as of the fourth Friday following Labor day of each year, on the number of pupils for whom transportation is allowed for the preceding school year, elementary or high school tuition payments for the current fiscal year, per capita cost of pupils for the preceding year and on the state equalized valuation of each school district for the calendar year. In addition, those districts maintaining school during the entire year, as provided in section 731 of the school code of 1955, shall count memberships and teachers in accordance with rules established by the state board.

Sec. 14. If the returns from any intermediate district or district upon which a statement of the amount to be disbursed or paid to are so defective as to render it impracticable to ascertain the share of the appropriation to be disbursed or paid, the department shall ascertain by the best evidence available the facts upon which the ratio and amount of such apportionment shall depend and make the apportionment accordingly.

Sec. 15. If a district fails to receive its proper share of the appropriation due, the department, upon satisfactory proof that the district was justly entitled to the same, shall apportion the deficiency in the next apportionment. If a district has received more than its proper share of the appropriation, the department, upon satisfactory proof, shall deduct the excess in the next apportionment.

Sec. 16. Notwithstanding the allowance for pupils attending school in any other district for tuition or transportation, or both, a district shall not receive more allowance therefor than the actual amounts paid by the district and if a district has received in any apportionment more than it paid, the excess shall be deducted from its next apportionment.

Sec. 17. On or before August 1, October 1, December 1, February 1, April 1 and June 1, the department shall prepare a statement of the amount to be distributed in the installment to the districts and deliver the statement to the state treasurer, who shall draw his warrant in favor of the treasurer of each district for the amount payable to the district according to the statement and deliver the warrants to the treasurer of each district.

Sec. 18. (1) Except as provided in chapters 3, 4 and 6, each district shall apply the moneys received by it under this act on salaries of teachers and other employees, tuition, transportation, lighting, heating and ventilation and water service and on the purchase of textbooks and other supplies. An amount equal to not more than 5% of the total amount received by any district under chapter 2 may be expended by the board for capital costs or debt service for debts contracted after December 8, 1932. No part of the money shall be applied or taken for any purpose whatsoever except as provided in this section. The department shall determine the reasonableness of expenditures and may withhold from any district the apportionment otherwise due for the fiscal year following the discovery by the department of a violation by the district.

(2) For the purpose of determining the reasonableness of expenditures and whether any violation of this act has occurred, the department shall require that districts have audits of their financial and child accounting records at least annually at the expense of the districts by certified public accountants or by intermediate district superintendents, as may be required by the department, or in the case of districts of the first class by a certified public accountant, the intermediate superintendent or the auditor general of the city. The audits shall be subject to such rules as the state board, in consultation with the state auditor general, may prescribe. Copies of the reports of the audits shall be filed as required by the state board and shall be available at all reasonable times for public inspection.

CHAPTER 2

Sec. 21. (1) Except as otherwise provided in this act, from the amount appropriated in section 11 there is allocated to every district a sum determined as provided in this subsection.

The sum allocated to each school district shall be an amount per membership pupil to be computed by subtracting, from $38,000.00 in 1973-74, $39,000.00 in 1974-75 and $40,000.00 in 1975-76, the district's state equalized valuation behind each membership pupil and then multiplying the resulting difference by the tax levied for purposes included in the operation cost of the district as defined in section 112, up to and including 22 mills in 1973-74, 25 mills in 1974-75 and without limitation thereafter.

A tax levied pursuant to subdivision (b) of subsection (4) of section 681 of the school code of 1955, as amended, being section 340.681 of the Michigan Compiled Laws, for the retirement of an operating deficit shall be considered levied for operating purposes in making computations under this section.

(2) A district levying 20 or more mills for operating purposes may receive for 1973-74, in lieu of the amount computed under subsection (1), an amount per membership pupil equal to the membership aid per pupil received for 1972-73 minus 20 mills multiplied by the increase in state equalized valuation behind each pupil in 1973-74 over 1972-73. This subsection shall expire June 30, 1974.

(3) A district levying less than 20 mills for operating purposes may utilize for the purpose of computing its allocation under subsection (1) an amount of operating millage equal to the amount levied plus 2/3 in 1973-74 and 1/3 in 1974-75 of the amount by which 20 mills exceeds the amount levied. This subsection shall expire June 30, 1975.

(6) Whenever 2 or more districts are reorganized into a single district, either through a procedure of annexation or consolidation, the amount of state aid to be received by the new district during the 2 years immediately subsequent to the annexation or consolidation shall not be less than the total sum of state aid which was earned by all the districts forming the new district during the last fiscal year in which the districts received aid as separate districts, except that no more than $400,000.00 shall be allocated under this subsection.

Sec. 22. A district levying an excise tax upon income pursuant to section 689 of the school code of 1955, being section 340.689 of the Michigan Compiled Laws, shall be credited, in computing its membership aid under section 21, with 6.5 mills for a tax equal to 50% of the liability of the corporation or resident individual for a 2% city income tax, and with a proportionate lesser number of mills or fractions of mills for a tax equal to less than 50% of such liability.

Sec. 23. The department shall disburse school aid based on a $836.00 allowance per membership pupil to the department of corrections for all inmate pupils enrolled in K-12 educational programs.

Sec. 24. A child under court jurisdiction who is placed in a private home or in a private or public institution located outside the district in which his parents or legal guardians reside may be counted as a resident of the district he attends if other than the district of his parents or legal guardian and shall be counted as 1½ memberships. The total membership of such children shall be computed by adding the membership days attended by all such children up to April 1 of the current school year and dividing the total by the number of days in the school year of the district up to April 1 of the current school year. The membership thus obtained shall be certified by the district to the department which shall adjust the total membership of the district accordingly in determining the school aid to be paid during the current fiscal year.

Sec. 25. The valuations of any district shall be reduced under the following conditions and in the following manner:

(a) An application may be filed by the district in form and content as described by the department showing the total taxes levied on property located within the district by all taxing agencies including the school district but excluding taxes levied for school operating purposes.

(b) Using the total taxes for the prior year as last reported by the state tax commission for the entire state but excluding taxes levied for school operating purposes, the department shall determine the tax rate for the entire state. It shall determine the tax rate for the applicant district by dividing the figure obtained in subdivision (a) by the district's prior year valuation.

(c) If the resulting tax rate for the applicant district is 125% or more of the resulting tax rate for the districts of the state, the valuation of the applicant district shall be reduced by the percent by which the resulting tax rates in the applicant district exceeds 125% of the resulting tax rates in all districts of the state. Not more than $24,000,000.00 shall be allocated as the result of reduction of valuation under this section.

Sec. 26. A district qualifying for funding under more than 1 of the special provisions of subsections (2), (3), (4), and (6) of section 21 or section 25 shall be funded under whichever special provision provides the greatest amount of funding, but a district shall not be funded under more than 1 of these special provisions.

Sec. 27. (1) From the amount appropriated in section 11 there is allocated to applicant local school districts operating a kindergarten through twelfth grade program, funds to be used in paying debt service obligations incurred as the result of borrowing for capital outlay projects and in meeting building and site fund requirements. The purpose, use, and expenditure of these funds shall be limited as if the funds were generated by ad valorem taxes levied for debt service and building and site purposes.

(2) The reimbursements under this section shall be based on prior year membership, obligation of a district for debt service, taxes levied for building and site purposes, taxes levied for repayment of loans from the state pursuant to article 9, section 16 of the state constitution of 1963, and operational levies, or equivalent.

(4) In 1974-75, the number of mills to be equalized shall be computed:

(a) By dividing the amount of the district's total obligation for debt service, and building and site by the membership, and dividing the result by $38,000.00;

(b) By adding 1 mill for payments due to the state, when applicable, for loans pursuant to article 9, section 16 of the state constitution of 1963;

(c) The number of mills when added to the operational millage shall not exceed 22 mills.

The maximum amount reimbursable to an entitled district shall be computed by multiplying the millage to be equalized by the membership and then multiplying the product by the amount by which $38,000.00 exceeds the state equalized valuation per membership pupil of the district.

(5) In 1975-76, the number of mills to be equalized shall be computed:

(a) By dividing the amount of the district's total obligation for debt service, and building and site by the membership, and dividing the result of $39,000.00;

(b) By adding 1 mill for payments due to the state when applicable, for loans pursuant to article 9, section 16 of the state constitution of 1963;

(c) The number of mills when added to the operational millage shall not exceed 25 mills.

The maximum amount reimbursable to an entitled district shall be computed by multiplying the millage to be equalized by the membership and then multiplying the product by the amount by which $39,000.00 exceeds the state equalized valuation per membership pupil of the district.

(6) No district shall receive both an allocation under this section and section 21(3) and (4). The option shall be subject to the decision of the local school board.

(7) The funds shall be distributed to and receipt had by the district prior to February 1. Any law or school board action to the contrary notwithstanding, the school debt service and building and site millage authorized and levied by a school district shall be reduced, in any fiscal year funds are received under this section, by an amount equal to that in excess of that necessary to be levied in the district in that year to produce the amount of funds which together with other available funds including funds the district receives under this section equals the funds necessary to pay debt service and building and site requirements for that fiscal year, including payments due the state for loans pursuant to article 9, section 16 of the state constitution of 1963. If not reduced as herein provided, the district shall forfeit and repay funds received by it, under this section, which together with other available funds exceeds that necessary to pay debt service and building and site requirements for that fiscal year, including payments due the state for loans pursuant to article 9, section 16 of the state constitution of 1963, to the state and the state may withhold other funds due the district to enforce this provision. This requirement shall not prohibit the eligibility of the district to elect to borrow from the state under Act No. 108 of the Public Acts of 1961, as amended, being sections 388.951 to 388.963 of the Michigan Compiled Laws.

(8) For purposes of compliance with Act No. 108 of the Public Acts of 1961, as amended, that a district repaying a loan levy at least 7 mills, the district shall be considered to be levying the millage necessary to yield locally the amount yielded by the actual millage levied including state equalization.

(9) For purposes of application and entitlement for loan under Act No. 108 of the Public Acts of 1961, as amended, the actual millage levied shall control. A district levying 7 or more mills for building and site and debt service, exclusive of the 1 mill for payments due to the state for loans pursuant to article 9, section 16 of the state constitution of 1963, shall not be required to levy the 1 mill for payments due to the state for loans pursuant to article 9, section 16 of the state constitution of 1963, but shall be required to levy, consistent with the provisions of Act No. 108 of the Public Acts of 1961, as amended, millage which, together with state equalization, if any, of that millage, would yield 10% of the difference between the yield of 7 mills as equalized and the debt service payment required.

(10) A district levying less than 7 mills for debt service shall not receive, for that fiscal year, funds under both this section and section 2 of Act No. 108 of the Public Acts of 1961, as amended, being section 388.952 of the Michigan Compiled Laws.

CHAPTER 3

Sec. 31. From the amount appropriated in section 11, there is allocated $22,500,000.00 to enable eligible districts to establish or to continue, in conjunction with whatever federal funds may be available to them from the provisions of title I of Public Law 89-10, the elementary and secondary education act, as amended, but not to exceed $200.00 of state funds per eligible pupil participating in the programs, comprehensive compensatory education programs designed to improve the achievement in basic cognitive skills of pupils enrolled in grades K-6 who have extraordinary need for special assistance to improve their competencies in such basic skills and for whom the districts are not already receiving additional funds by virtue of their being physically, mentally or emotionally handicapped.

Sec. 32. A district shall be eligible for allocations under section 31 for the fiscal year 1972-73 and for each of the following 2 fiscal years if at least 15% of its total enrollment in grades K-6 and not less than 30 of its pupils in grades K-6, as described in section 31 and as computed under section 33, are found to be in need of substantial improvement in their basic cognitive skills except that districts which received such aid in 1970-71 for schools housing grades 7 and 8 shall be funded if the pupils in those schools are found eligible in a manner to be determined by the department.

Sec. 33. The number of pupils in grades K-6 construed to be in need of substantial improvement in their basic cognitive skills shall be calculated for each district by the following procedural steps:

(a) Using the composite achievement test score only on the state assessment battery given in January 1971, a percentile ranking shall be made statewide for the scores of pupils in grade 4 and for the scores of pupils in grade 7.

(b) The percent of pupils of the district enrolled in grade 4, as defined in section 31, who scored at the fifteenth percentile or lower for grade 4 in accordance with statewide norms established for the assessment battery, shall be determined and this percentage shall be multiplied by the aggregate enrollment of the district in grades K-4 on the fourth Friday following Labor day of the preceding school year.

(c) The percent of pupils of the district enrolled in grade 7, as defined in section 31, who scored at the fifteenth percentile or lower for grade 7, in accordance with statewide norms established for the assessment battery, shall be determined and this percentage shall be multiplied by the aggregate enrollment of the district in grades 5 and 6 on the fourth Friday following Labor day of the preceding school year.

(d) The number of pupils determined in subdivision (b) shall be added to the number of pupils determined in subdivision (c) and this resultant sum shall be construed to be the number of pupils of the district enrolled in grades K-6 who are in need of substantial improvement in their basic cognitive skills at the beginning of the 1972-73 and 1973-74 school years.

Sec. 34. The tentative allocations to each eligible district shall be determined by multiplying the number of pupils determined in subdivision (d) of section 33 by $200.00.

Sec. 35. The tentative allocations as determined in section 34 shall be distributed the first year to districts in decreasing order of concentrations of pupils in grades K-6 who score on the assessment battery at the fifteenth percentile or lower for norms for the state as a whole. Distribution shall begin with the district with highest concentration of such pupils and continue in descending order of concentration until all of the moneys appropriated in section 31 have been distributed, if:

(a) The districts have applied for the moneys on forms provided by the department.

(b) The districts have shown evidence of having established comparability among the schools within their boundaries in accordance with standards established by the state board.

(c) The districts have committed themselves to the involvement of parents, teachers and administrators in the planning and continuous evaluation of their compensatory education programs as conducted under this chapter.

(d) The districts have identified the performance objectives of their compensatory education programs. Performance objectives shall be concerned primarily with the improvement of pupils' performance in the basic cognitive skills.

(e) The districts have certified that they will identify or have identified, on or before the fourth Friday following Labor day of the school year, the pupils to be provided special assistance with these moneys with the pupils being selected in grades 2-6 from the lowest achievers in basic cognitive skills and in grades K and 1 from among those with the lowest readiness for the acquisition of cognitive skills. The aggregate number of pupils selected from grades K-4 and from grades 5 and 6 shall bear at least the same ratio to the total enrollment in these blocs of grades as those percentages which were used for the districts in subdivisions (b) and (c) of section 33.

Sec. 35a. The superintendent of public instruction may disallow deductions from state aid payments due to the inability of a school district to verify maintenance of effort eligibility and adhere to budget line item limitations under this chapter for the school year 1970-71.

Sec. 36. A district receiving moneys under section 31 may use these moneys in any manner which, in the judgment of its board and its staff, contributes significantly toward substantial improvements in the basic cognitive skills of the pupils. These uses may include, but are not limited to, the following:

(a) Employment of additional personnel.

(b) Purchase of instructional devices and other aids.

(c) Leasing of portable classrooms.

(d) Contracting with a public or private agency, a group of employees or a group of nonemployees.

(e) Providing inservice training for teachers and other personnel.

(f) Provision of adequate nutrition and health care to students.

Sec. 37. As a condition of receiving moneys for use in fiscal years following 1971-72, an assessment or evaluation of the progress of each pupil construed to be in need of special assistance under this chapter shall be made with the use of pretests and posttests. These tests shall be administered or approved for administration by the department in accordance with policies of the state board to determine the amount of progress made by the pupils toward attainment of the performance objective specified in the district's approved application as stipulated in subdivision (d) of section 35. In the subsequent year for each pupil making a minimum gain during the year of at least 75% of the skills in the performance objectives specified for his program, the district shall receive the full per pupil amount of funds allocated to the district in accordance with section 31; and for those pupils who do not achieve at least 75% gain, the district shall receive an amount per pupil prorated in the proportion that the amount of actual gain made bears to 75% of the total skills listed for the programs provided these pupils except that for the year 1972-73 the full per pupil amount shall be allocated for all participating pupils. Regardless of gain levels, a district shall be paid in full for a pupil who has migrated from the district during the school year and for a pupil who has not attended school for a minimum period of 150 days because of health reasons verified by a medical authority.

Sec. 38. The state board shall report to the governor and the legislature not later than October 1 of each year the results of the evaluation studies including a report on exemplary programs which promote academic achievement.

Sec. 39. No funds appropriated under this chapter shall be allocated for pupils bused to another school district for the purpose of achieving a racial balance of students. Any funds appropriated under this chapter not used for the purpose appropriated shall be returned to the general fund.

Sec. 39a. For the fiscal year 1973-74, the total of the moneys unearned by the respective school districts, on the basis of their 1972-73 program results, shall be used by the state board of education for reallocation to participating school districts in the 1972-73 program. The reallocations shall be made in amounts per district prorated as prescribed in section 37. Subject to approval by the state board of education, the reallocation shall be made on the condition that the districts provide a different educational delivery system than was provided for students who did not achieve 75% of prescribed minimum performance objectives in 1972-73. Approval of the educational delivery systems shall be made upon the condition that the students achieve 75% of their prescribed performance objectives for 1973-74. The state board of education shall develop guidelines to determine minimum criteria for qualification of a district for this program and for the implementation of the provisions of this section. The state board of education may use up to 2% of the total reallocated funds for the employment of an external and independent agency for monitoring the contractual arrangements and validating the results thereof. Up to 2.5%, but not to exceed $100,000.00, shall be used by the department of education to develop and implement a cost-effectiveness study of Michigan compensatory education programs. Unearned funds where participation is not desired by a district in the provisions of this section shall revert to the school aid fund.

CHAPTER 4

Sec. 41. From the amount appropriated in section 11, $500,000.00 shall be allocated for grants to districts to enter into performance contracts for instructional purposes. The department shall establish and supervise the contracts.

Sec. 42. From the amount appropriated in section 11, $250,000.00 shall be allocated to continue contractual arrangements for a statewide program of abstract conceptually oriented mathematics utilizing the discovery method to improve the basic skills of educationally needy children attending elementary schools. The department shall evaluate the effectiveness of the program and submit its findings to the legislature.

Sec. 43. (1) Districts offering reading support service programs approved by the department are entitled to 75% of the actual cost of the salary, not to exceed $8,100.00 for any individual salary of a reading support service teacher approved by the department. The state board may provide by rules for the maximum number of pupils per teacher to be counted. From the total appropriated in section 11, there is allocated not to exceed $4,000,000.00 for reading support service programs to be used for teachers' salaries. A school district funded under section 31 shall not receive funds under this section except that each section 31 district shall receive under this section an amount equal to the funds received under this section and section 44 for 1972-73 if it continues to employ at least the same number of reading support service teachers. For school districts funded under section 31, if the number of reading support service teachers employed in 1973-74 is less than the number employed in 1972-73, a proportionate reduction shall be made in the funds for the district.

(2) School districts providing reading support services under the provisions of this section shall submit, as part of their application for approval, performance objectives for their reading programs, and shall provide annually to the department of education the results of an external evaluation and audit based upon the previously submitted objectives. The report shall include, when appropriate, a summary by grade, of pupil scores on pretests and post tests. The annual program external evaluation and audit requirements shall be described by rules promulgated by the state board of education.

(3) The department of education shall publish annually a descriptive list of school district reading support programs having demonstrated above average pupil gain scores.

(4) One percent of the total allocated in this section shall be appropriated to the department of education for administration and evaluation.

Sec. 45. The state board shall survey the need for and feasibility of special programs for academically talented children, implementing the fullest utilization of any federal funds that may be available for this purpose and shall make recommendations to the 1974 legislature for such supplementary state funding as may be required to meet this need.

Sec. 46. From the amount appropriated in section 11 there is allocated not to exceed $500,000.00 to the neighborhood education authority for the purpose of allocation to applicant domestic nonprofit corporations to operate neighborhood education centers, as defined by Act No. 39 of the Public Acts of 1970, being sections 388.1071 to 388.1076 of the Michigan Compiled Laws. Applicants shall submit detailed plans of operation to the neighborhood education authority and receive the authority's approval.

Sec. 47. From the amount appropriated in section 11 there is allocated not to exceed $150,000.00 to applicant districts for the purpose of experimenting with, evaluating and reporting upon programs of special instruction for children who are academically talented or gifted in terms of uniquely high intelligence or special ability to such a degree that their academic potential might not be realized in a normal instruction setting.

Sec. 48. From the amount appropriated in section 11, there is allocated not to exceed $500,000.00 to applicant districts or intermediate districts for nonresidential alternative juvenile rehabilitation programs, which shall be defined as programs for children and youth who have been found to need remedial academic and social rehabilitative services. To be eligible for funding of salaries from legislative appropriations the county board of commissioners of the county in which the program is conducted or the supervising school district shall, by resolution, agree to fund the balance of the cost of the program. The district or intermediate district in which the program is conducted shall be responsible in cooperation with the juvenile court of the county for supervising the program and the district may apply for state and federal moneys for reimbursement of $7,500.00 for the salary of each professional program personnel as required. The program shall be evaluated annually by the department of education.

CHAPTER 5

Sec. 51. (1) There is authorized a program of not to exceed $100,000,000.00 for the purpose of reimbursing districts for special education programs, services and special education personnel as defined in the school code of 1955, including alternative education programs for pregnant persons approved by the department in accordance with Act No. 242 of the Public Acts of 1970, being sections 388.391 to 388.394 of the Michigan Compiled Laws, and programs for pupils handicapped by learning disabilities as defined by the department. An amount equal to the difference between the $17,000,000.00 of federal funds anticipated for the 1972-73 school year and the amount of federal funds actually received, but not to exceed $10,400,000.00, shall be distributed to the districts as reimbursement for programs conducted, services rendered and personnel employed in 1972-73.

(2) From the amount appropriated in section 11, there is allocated the sum of $84,000,000.00 which amount shall be augmented with not to exceed $16,000,000.00 of federal funds available under an agreement with the department of social services. Prior to December 1, 1973 and April 1, 1974 the department shall evaluate the availability of such federal funds, shall report to the districts and the intermediate districts thereupon and shall adjust the amount of subsequent statements prepared pursuant to section 17 of this act accordingly. Nothing in this section shall be construed as an expressed or implied statement of intent, on the part of the State of Michigan, to assume responsibility for any deficiency in anticipated federal funding.

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(3) Reimbursement shall be at 75% of the actual cost of salaries, not to exceed $8,100.00 for any individual salary, for such programs and services as determined by the department, unless the appropriation made in this section exceeds the amount necessary to fund this scale of reimbursement, in which case the scale shall be prorated upward accordingly. Not later than March 1, 1974 the department shall prepare a written report for the legislature indicating the amount of federal moneys earned under the agreement with the department of social services from July 1, 1973 through June 30, 1974, and shall develop and report to the legislature a system for reimbursing special education programs and services on an added cost basis.

(4) Special education personnel transferred from 1 school district to another to implement the school code of 1955, as amended, shall be entitled to all rights, benefits, and tenure to which the person would otherwise be entitled had he been employed by the receiving district originally.

Sec. 52. Districts conducting special education programs and services for the hearing impaired, physically handicapped and visually handicapped shall be allocated an additional amount not to exceed 75% of the cost for equipment, for teachers who teach others to transcribe books into braille or books for visually handicapped students at all levels and for expenses incurred in transcribing and recording educational materials, including machines, paper and binding.

Sec. 53. Intermediate districts shall be entitled to additional funds for the purpose of establishing special education programs and services for trainable individuals who are not currently eligible for mentally handicapped programs. The amount allocated for these programs shall not exceed 75% of the actual cost of operating the program including the cost of transportation. An intermediate district is authorized to use moneys in its general fund or special education fund, not otherwise restricted, or contributions from districts or individuals for the support of the programs.

Sec. 54. A district providing board and room for children being educated under provisions for special education programs and services in the school code of 1955 shall be allowed an amount sufficient to pay the board and room up to an amount approved by the department.

Sec. 55. A district operating summer special education programs and services for the handicapped as approved by the department shall be allowed up to 75% of the actual cost of the special education programs and services as determined by the department.

CHAPTER 6

Sec. 61. From the amount appropriated in section 11, there is allocated the sum of $17,500,000.00 to reimburse districts and secondary area vocational centers for secondary-level vocational education programs on an added cost basis. The definition of what constitutes such programs and reimbursement shall be in accordance with rules promulgated by the department, and applications for participation in such programs shall be filed in the form prescribed by the department, which shall determine the added cost for each vocational program area. The allocation of added cost funds shall be based on the type of vocational programs provided, the number of students enrolled and the length of the training period provided. Such funds shall be utilized in conjunction with whatever federal funds may be available from the provisions of Public Law 88-210, the vocational education act of 1965, as amended.

CHAPTER 7

Sec. 71. (1) Districts transporting pupils from the vicinity of their homes to the schools they attend and return shall be granted allotments from the school aid fund in amounts determined by the department but not to exceed 75% of the actual cost of the transportation. Allotments shall not be granted for the transportation of children living within 1½ miles of the schools they attend. Transportation distances shall be measured along public streets and highways.

(2) Although the children may live 1½ miles or more from the schools they attend allotments shall not be granted for the transportation of children living within the corporate limits of cities or villages unless 1 of the following conditions exists for the children transported:

(a) The children transported live in a district organized prior to July 1, 1955 as a township or a rural agricultural school district.

(b) The children transported live within a district and within city or village limits the major portion of which is in a district organized prior to July 1, 1955 as a township or rural agricultural school district.

(c) The children transported live within a city or village and the larger pupil population of the city or village is contained in another single district and no school the children can attend is operated in the portion of the city or village within the district.

(d) The children transported live in a district, containing 2 or more cities or villages or parts of 2 or more cities or villages, operating 1 high school and 1 junior high school or 1 combination junior-senior high school and the children transported are enrolled in grades 7-12 and the school building in which these grades are taught is located outside the corporate limits of the city or village in which they reside.

(e) The children live within a district and within city or village limits and attend a public school located outside any city or village.

(f) The children live within a district and within a city or village and the shortest available route requires a bus to leave the city or village over streets or highways outside of any city or village and return to the city or village in which their public school is located and they ride in the bus at the time of exit from the city or village.

(g) The children live within a district and are transported to another district for education in grades not provided in the district in which they reside.

(3) Upon investigation the department shall review, confirm, set aside or amend the action, order or decision of the board of any district with reference to the routes over which children shall be transported, a distance they shall be required to walk, and the suitability and number of vehicles and equipment for the transportation of the children.

(4) An allotment for transportation shall not be allowed a district which operates a bus route disapproved by the department.

Sec. 72. A district not maintaining school within the district may participate in the school aid fund under this section. The total amount which shall be allocated to such a district shall be an amount determined by the department but not to exceed 75% of the actual cost of transportation, less a sum equal to 5.86 mills on the valuation of the property within the district reported and determined as hereinafter provided. If the amount deducted herein has been used to determine the aid to any such district under any other section of this act, the amount herein allotted for transportation shall be in addition to such other amounts allotted.

Sec. 73. A district or intermediate district providing transportation for handicapped children, as defined in rules promulgated by the state board, being educated under the provisions of the school code of 1955, shall be allowed an amount determined by the department but not to exceed 75% of the actual cost of transportation or more than $200.00 per pupil living more than 1½ miles from the school they attend unless the department determines from the best evidence available that the handicapped child cannot safely walk that distance in which case the limit of 1½ miles may be waived. No allowance for such children shall be given under sections 71 or 72.

Sec. 74. A district or intermediate district providing transportation for handicapped children being educated under the provisions of the school code of 1955 at the Michigan school for the deaf, the Michigan school for the blind or in special education programs and services under the direction of the department of mental health and who cannot safely walk to the school they attend shall be allowed an amount determined by the department but not to exceed 75% of the actual cost of transportation or more than $200.00 for each child transported. No allowance for such children shall be given under sections 71, 72 or 73.

Sec. 75. A district providing transportation for secondary school pupils to centers designated or approved as secondary area vocational centers by the department or to training facilities approved annually by the department to conduct jointly planned occupational programs according to criteria developed by the department shall be allowed an amount determined by the department but not to exceed 75% of the actual current cost of the transportation. Not more than $2,500,000.00 shall be distributed for transportation under this section.

Sec. 77. The department shall provide for a system of reimbursing costs incurred by districts for transportation within cities and villages of children living 1-1/2 or more miles from the schools they attend not otherwise eligible for reimbursement under this chapter, shall allocate $1,500,000.00 to such districts for initial implementation of the system in 1973-74 and shall make further recommendations to the 1974 legislature.

Sec. 78. Not more than $43,400,000.00 shall be distributed for transportation under this chapter.

Sec. 79. No appropriations allocated under this act for the purpose of covering transportation costs or any portion thereof shall be used for the payment of any cross busing to achieve a racial balance of students within a school district or districts.

CHAPTER 8

Sec. 81. (1) From the amount appropriated in section 11, there is allocated to intermediate districts as established under the school code of 1955, the sum necessary but not to exceed $8,350,000.00 to provide state aid to intermediate districts. There shall be allocated to each intermediate district a sum obtained by multiplying the number of pupils in membership in the constituent districts of the intermediate district by $8.00 each, which shall be reduced by a sum equal to .2 mill on the state equalized valuation of the property in the intermediate district, or for any intermediate district having a fixed allocation of less than .2 mill adopted as a separate limitation pursuant to section 6 of article 9 of the state constitution of 1963, shall be reduced by a sum equal to the fixed allocation levied on the state equalized valuation of the property in the intermediate district. However, an intermediate district shall not receive less than a 10% increase, nor more than a $1.50 per pupil increase, in state aid under this subsection in 1973-74 over the state aid received under sections 81 and 82 in 1972-73.

(2) Intermediate districts formed by the consolidation or annexation of 2 or more intermediate districts or the attachment of a total intermediate district to another intermediate district shall be entitled to an additional allotment of $3,500.00 for each intermediate district included in the new district for a period of 3 years following consolidation, annexation or attachment.

Sec. 83. From the amount appropriated in section 11, there is allocated to intermediate school districts $700,000.00 to operate educational media centers in accordance with sections 291b to 291d of the school code of 1955, and the criteria established by the state board.

Sec. 84. From the amount appropriated in section 11 there is allocated not to exceed $650,000.00 to districts participating with intermediate districts in cooperative educational programming as provided in section 298a (1) of the school code of 1955. Each such district shall receive, upon application to and approval of the department, the amount paid by the district to the intermediate district operating the program, unless the allocation made in this section is not sufficient to pay out the aggregate of district claims, in which case the payments shall be prorated to a point where their aggregate does not exceed the amount allocated.

CHAPTER 9

Sec. 91. From the amount appropriated in section 11, there is allocated the sum of $18,500.00 for payment of a membership fee for the state of Michigan in the education commission of the states.

Sec. 96. From the amount appropriated in section 11, there is allocated not to exceed $1,000,000.00 to be used by districts conducting community school programs approved by the department. The state board shall promulgate rules to implement this section.

CHAPTER 10

Sec. 101. (1) To be eligible to receive state aid under this act, on or before the seventh Friday after Labor day of each year, each district superintendent through the secretary of his board shall file with the intermediate superintendent a certified and sworn copy of the district's enrollment for the current school year. In addition, those districts maintaining school during the entire year, as provided under section 731 of the school code of 1955 shall file with the intermediate superintendent a certified and sworn copy of the enrollment for the current school year in accordance with rules established by the state board. In case of failure to file such sworn and certified copy on or before the seventh Friday after Labor day or in accordance with rules promulgated by the state board, state aid under this act shall be withheld from the defaulting district. A person who wilfully falsifies any figure or statement in the certified and sworn copy of enrollment shall be punished in the manner prescribed by the laws of this state.

(2) Each district shall provide a minimum of 180 days of student instruction. A district failing to hold 180 days of student instruction shall forfeit 1/180 of its total state aid appropriation for each day of failure and a district failing to comply with rules promulgated by the state board which establishes the minimum time student instruction is to be provided to pupils for the regular school year shall forfeit from its total state aid appropriation an amount determined by applying a ratio of the time duration the district was in noncompliance in relation to the minimum time student instruction is required. Not later than August 1, the board shall certify to the department the number of days of student instruction in the previous school year. If the district did not hold at least 180 days of student instruction, the deduction of state aid shall be made in the current fiscal year. Days lost because of strikes or teachers' conferences shall not be counted as a day of student instruction. The state board shall promulgate rules for the implementation of this section.

(3) A district shall not be allotted or paid any sum under the provisions of this act in any year, if the department determines that at the end of the preceding fiscal year the amount of funds on hand in the district available for the payment of the operation cost in the district exceeded the amount of moneys expended for operation cost in the district during the preceding fiscal year.

Sec. 102. Districts receiving moneys under this act shall not adopt or operate under a deficit budget and a district shall not incur an operating deficit in any fund in any fiscal year. Each district shall submit its

adopted budget for the current fiscal year to the department before November 1. If the department determines that the district is in violation of this section, the district shall not be allotted or paid any further sum under this act until a new budget is submitted and determined by the department to be in compliance with this section. However any district with a deficit as of June 30, 1973 that demonstrates progress in eliminating this deficit is not in violation of this section.

Sec. 103. A district shall not be allotted or paid any sum under this act for the number of pupils in membership in excess of a ratio of 34 pupils to 1 teacher. The department may include all pupils in membership regardless of this section if in its judgment the district could not maintain the ratio because of lack of funds, facilities or qualified teachers. For the purpose of this section, a teacher means an employee of the district holding a valid Michigan teacher's certificate.

Sec. 105. All children to be counted in membership shall be at least 5 years of age on December 1 and under 20 years of age on September 1 of the school year except that all children regularly enrolled and working toward a high school diploma may be counted in membership regardless of age. A former member of the armed services in attendance in the public schools, the cost of whose instruction is not paid for by other state funds or by the federal government, shall be counted in membership regardless of age.

Sec. 106. A child enrolled in public school programs organized under federal or state supervision and in which the teaching costs are fully subsidized from federal or state funds shall not be counted in membership.

CHAPTER 11

Sec. 111. Effective July 1, 1972, a district having tuition pupils enrolled on the fourth Friday of September of each year, shall charge the district in which the tuition pupils reside, tuition computed in accordance with section 582 of the school code of 1955. The resulting tuition rates shall be reduced by the gross per pupil membership guarantee provided under section 21 (1) except that a district receiving no membership allowance under section 21 (1) shall charge the full per capita operating cost determined in accordance with section 582. An additional allowance for nonresident pupils in part-time membership, shall be made to the district in an amount equal to the difference between the prorated per capita cost as determined in section 582 and the gross per pupil membership guarantee provided under section 21 (1).

Sec. 113. Notwithstanding the provisions of section 111, a child residing in a juvenile or detention home operated by a probate court and attending school by direction of the court in the district of residence of his parent or legal guardian shall not be counted as a tuition student but shall be counted in resident membership in that district. A child residing in the home of his parent or legal guardian but who, by assignment of a probate court, attends school in another district shall not be counted as a tuition student but shall be counted in resident membership in the district which he attends. A child residing in the home of his parents or legal guardian or juvenile home but who, by direction of local school authorities and approval of the probate court, may be enrolled in school in another district shall not be counted as a tuition student but shall be counted in resident membership.

Sec. 114. A child placed in a state institution by parents shall be counted in resident membership of the district in which the child is enrolled, and an additional allowance for such child shall be made to the district in the amount equal to the difference between the per capita cost as determined in section 582 of the school code of 1955 and the gross per pupil membership guarantee provided under section 21 (1).

Sec. 115. A district paying tuition for special education pupils being educated under the school code of 1955 shall be allowed an amount sufficient to pay the tuition charged the district in excess of $50.00 per pupil but less than $81.00 per pupil and all over $150.00 per pupil plus any sums which the district is apportioned under other sections of this act.

Sec. 116. A district having American Indian children in attendance, who reside within the district and upon a United States government Indian reservation, shall be allowed in addition to the allowances provided by the other sections of this act an amount equal to the number of such children in attendance times 1/2 the tuition rate as computed in accordance with section 111 and in accordance with the provisions of the school code of 1955. A district receiving federal assistance under Public Law 81-874, as amended, shall not share in the allowances under this section.

Sec. 117. A district shall not be allotted or paid any sum under this act unless the district charges the legal amount of tuition, for all tuition pupils enrolled on the fourth Friday of September of each year from the districts in which the tuition pupils reside and has certified such fact to the department. If no district is legally liable for the payment of the tuition and the tuition has not been collected from the parents or guardians of the tuition pupils on or before May 1 of each year, the number of such pupils shall be deducted from the membership of the district and the allowances as provided in section 111 shall be recomputed accordingly. A district which enrolled and educated pupils who are residents of another district due to uncertainty as to the boundary of a district, and which serves notice to the resident district where such pupils must attend school in subsequent school years, shall not forfeit state aid membership allowances or recalculate allowances under sections 111 and 112 for the 1972-73 school year.

Sec. 118. A district shall not be allotted or paid any sum under this act after April 1 of each year unless the district pays the legal amount of tuition for tuition pupils on or before that date to the districts in which the tuition pupils are in school membership on the preceding fourth Friday following Labor day of each year and has certified such fact to the department.

Sec. 119. A child whose parents or guardians live on land in this state over which the federal government has taken exclusive jurisdiction and which has not been attached to a district for educational purposes may be included in membership by the district which he attends and for the purpose of this act is considered a tuition pupil.

CHAPTER 12

Sec. 121. The valuation of any whole or fractional district shall be the total state equalized valuation of the property contained therein as last fixed by the state tax commission.

Sec. 122. The valuation of property assessed under Act No. 189 of the Public Acts of 1953, as amended, being sections 211.181 and 211.182 of the Compiled Laws of 1948, shall be deducted from the total valuation of a district where school taxes levied against the property are not collected from the lessee or user of the property. The credit so obtained by a district in the application of the formula provided in section 21 shall forever be a lien against the district and shall be paid by the district to the school aid fund at such time as the taxes are collected.

Sec. 123. The valuation of property located on land over which the federal government has exclusive jurisdiction and upon which school taxes have been levied in accordance with federal law shall be deducted from the total valuation of a district if credits against such taxes, as permitted by federal law, result in a payment to the district of an amount less than the product of the valuation of such property, times the millage referred to in section 21. Any amount of such taxes collected shall be deducted from the state aid to which the district is entitled under this act, up to an amount equal to the above product.

Sec. 124. When taxes levied for operating purposes against property constituting at least 10% of the valuation of a district are paid under protest and are thus unavailable to the district, the total valuation of the district for the purposes of this act shall be reduced by the valuation of such property. The credits so obtained by a district in the application of the formula provided in section 21 shall forever be a lien against the district and shall be paid by the district to the school aid fund at such time as the taxes are collected.

CHAPTER 13

Sec. 131. Subject to the restrictions prescribed in this chapter, the board may borrow money for school operations, issue notes therefor and pledge for the payment thereof state aid available to the district under this act. The notes shall be the full faith and credit obligations of the district.

Sec. 132. Notes issued under this chapter shall become due and payable on or before September 1 immediately following the fiscal year for which state aid was pledged. The notes shall bear interest at not to exceed 6% per annum and may be made redeemable prior to maturity on such terms and conditions as shall be provided by the resolution of the board.

Sec. 133. A district shall not issue its notes pledging state aid under this act for any school year in an aggregate amount exceeding 100% of the undistributed balance of its share of the aid for the school year. Not more than 15% of a district's share of the aid for the next succeeding fiscal year shall be borrowed prior to the beginning of that fiscal year. The issuance of notes under this chapter shall not be subject to Act No. 202 of the Public Acts of 1943, as amended, being sections 131.1 to 138.2 of the Compiled Laws of 1948.

Sec. 134. Notes shall not be issued for borrowing under this chapter without the prior approval of the department for which approval application shall be made by the district. The department shall issue a certificate of approval which shall show the amount of state aid allocated to the district for the present and, if applicable, for the next succeeding fiscal year and any payments distributed to the district prior to the date of the certificate. A district may make more than 1 borrowing under this chapter during any school year.

Sec. 135. A district shall not contest the validity of any note issued by it under this chapter if it has received permission from the department to issue the note and has received the principal amount of the note.

Sec. 136. If at any time during the last 2 months of a fiscal year or during the first 6 months of a fiscal year, a district has insufficient funds on hand to meet its operating expenditures, the department, when proof of such need has been furnished to it, may advance an amount to meet operating expenditures. Such payment in the first instance shall not be greater than ¾ of the total amount allotted to a district for the following school year under the terms of this act as near as it can be determined when the advance payment is requested and such payment, in the second instance, shall not be greater than 2/5 of the total amount allotted to a district for the current school year under the terms of this act as near as it can be determined when the advance payment is requested.

Sec. 137. Notes issued under sections 138 and 139 of this chapter shall not be subject to the conditions and restrictions set forth in sections 132, 133, and 134.

Sec. 138. (1) The board of education of a school district of the first class may apply to the municipal finance commission for cash advances to meet the school district operating needs which occur before the end of the fiscal year in which the application is made, if the board has indicated by official resolution its intention to levy 2.25 mills for the retirement of an operating or projected operating deficit, or has levied an excise tax of at least 15% of the liability of the corporation or resident individual, pursuant to either subdivision (b) of subsection (4) of section 681 or section 689 of Act No. 269 of the Public Acts of 1955, as amended, being sections 340.681 and 340.689 of the Michigan Compiled Laws. If, after review, the municipal finance commission finds that the district does need the cash advances requested, the municipal finance commission, by an appropriate order which states the amount to be advanced, shall direct the state treasurer to pay to the school district the amount stated in the order, and the state treasurer shall promptly pay the amount to the treasurer of the school district from the moneys appropriated for that purpose by this section.

(2) A school district receiving an advance under this section shall issue notes in the amount of the advance, made payable to the state of Michigan, due in not more than 180 days after the date of the notes, with interest at 5% per annum. The notes shall be repayable from borrowing authorized by law to fund advances made under this section, or from any other funds legally available to the district for the repayment. If a school district receiving advances from the state under this section has not repaid the advances when due, then the state treasurer shall deduct equal amounts from each state aid payment due the school district thereafter, so that the advances with interest at 5% per annum shall be repaid in 2 years from the date the notes become due.

(3) A school district shall not receive more than $30,000,000.00 in advances under this section in any 1 school year.

(4) The school operating advance fund is created in the state treasury from which advances shall be made to school districts as provided in this section. The fund consists of sums appropriated by the legislature. The state treasurer shall issue his warrant on the fund for the amount of the advance to be made in accordance with subsection (2). There is appropriated from the general fund to the school operating advance fund the sum of $30,000,000.00. Moneys received upon repayment of an advance shall be deposited in the general fund.

Sec. 139. (1) The state treasurer may borrow money and issue negotiable interest bearing state notes for the purpose of making loans to school districts that at any time have an operating or projected operating deficit in excess of $100.00 per membership pupil in accordance with this section. The state notes issued in accordance with this section shall not be a general obligation of the state, shall not pledge the full faith and credit of the state and shall not be an indebtedness of the state within the meaning of any constitutional limitation on state indebtedness, but shall be payable solely and only from the payments of principal and interest on the loans made by the state treasurer to a district or districts as provided in this section. State notes issued under the provisions of this section may be issued for the purpose of making loans to 1 or more districts.

(2) State notes issued under this section shall be issued only upon the written recommendation of the superintendent of public instruction based upon the determination of the department of treasury as provided in subsection (3) and upon the adoption of a resolution authorizing the issuance thereof by the state administrative board. The resolution shall specifically approve the recommendation, briefly describe the loan or loans to be made, the amount, maturity schedule, maximum rate of interest, date and form of the state notes, and shall contain an irrevocable pledge for the payment thereof of the loan repayments to be made by the district or districts receiving a loan under this section. The principal amount of the notes shall not exceed the amount of the loan or loans to be made plus an amount sufficient to pay the costs of issuing and delivering the state notes. The state notes shall mature serially with annual maturities in not more than 10 years from their date and shall bear interest, payable annually or semiannually, at a rate of not more than 6% per annum. The first principal installment on the state notes shall be due not more than 1 year from the date thereof and a principal installment on the state notes shall not be less than 1/5 of the principal amount of any subsequent principal installment. The state notes may be made subject to redemption prior to maturity with or without premium in a manner and at times as shall be provided in the resolution authorizing the issuance of the state notes. The maturity and interest rate of the state notes shall be so fixed as to permit payment of the principal of and interest thereon in full as the same becomes due from the loan or loans to be made to the districts as herein provided.

(3) The existence or projection of an operating deficit of any district and the amount thereof shall be determined by the department of treasury, using normal school accounting practices. If the department of treasury determines that for any district there is or will be at the close of the fiscal year ending June 30, 1973, an operating deficit, it shall make a determination so stating, which shall include the total amount of the operating or projected operating deficit, the amount of the operating or projected operating deficit per membership pupil and the payments to the district from the school aid fund established by section 11 of article 9 of the state constitution during the fiscal year immediately preceding the fiscal year in which the notes herein authorized are issued, adjusted to show what those payments would have been had they been derived only from the sales

tax moneys required to be deposited in the school aid fund, hereinafter referred to as "sales tax state aid payments". The determination by the department of treasury shall be final and conclusive as to the existence of an operating deficit or projected operating deficit, the amount thereof, the amount thereof per membership pupil, and the sales tax state aid payments.

(4) Before any state notes are issued under this section the state treasurer shall make sworn application to the municipal finance commission on forms to be furnished by the municipal finance commission for permission to do so and shall attach thereto the determination of the department of treasury described in paragraph (3) of this section and a certified copy of the resolution authorizing the state notes. State notes shall not be issued hereunder until the state treasurer has first secured approval of the municipal finance commission to the issuance thereof and to the form of notice of sale proposed to be used. In determining whether a proposed issue of state notes shall be approved the municipal finance commission shall take into consideration: (a) Whether the state notes conform to the provisions of this section; and (b) whether the amounts pledged for the payment of the state notes will be sufficient to pay the principal and interest as the same becomes due.

(5) The state notes shall be sold at not less than par and at public sale after notice by publication at least 7 days before the sale in a publication printed in the English language and circulated in this state, which carries as part of its regular service notices of sale of municipal bonds and which is approved by the municipal finance commission as a publication complying with the foregoing qualifications.

(6) The state treasurer may make loans to a district that at any time has an operating or projected operating deficit in excess of $100.00 per membership pupil for the purpose of funding the operating or projected operating deficit or paying obligations issued to fund the deficit in accordance with this section but only from the proceeds of sale of state notes issued in accordance with this section. The making of the loan shall be evidenced by interest bearing notes of the district or districts to whom the loan is made, which notes shall pledge for their payment any funds of the district legally available therefor, and shall pledge as secondary security therefor any future state aid moneys. The loan shall be in a principal amount equal to the principal amount of state notes issued in accordance with this section or equal to that portion of a state note issue allocated for the purpose of making the loan. The principal installments of the loan by the state treasurer to the district shall become due 15 days prior to and in the same amounts as the principal installments on the state notes become due and the interest on the loan shall be at the same rate as the rate of interest on the state notes and shall be payable 15 days prior to the interest payments on the state notes. In addition the district shall pay at the same time as each principal and interest payment on its loan becomes due the additional amount as may be necessary to pay paying agent fees, costs and expenses on the state notes. In case an issue of state notes is for the purpose of making loans to more than 1 district the provisions of this section relating to principal and interest repayments on the loans made and payment of paying agent fees, costs and expenses shall be allocated among the several districts to whom loans are made so that in the aggregate the amounts to be received shall be fully sufficient to pay principal of and interest on the state notes and the paying agent fees, costs and expenses thereon, as the same become due.

(7) The resolution of the state administrative board authorizing the state notes shall require the establishment of a debt retirement fund. The resolution of the district authorizing the loan from the state treasurer shall direct the treasurer of the district to pay to the state treasurer the amount due to the state treasurer pursuant to subsection (6), and if the payments are not duly made, authorize the state treasurer for and on behalf of the district to deposit in the debt retirement fund from the state school aid fund an amount equal to the aggregate amount of principal and interest due on the district note, such amount to be deducted from the next state school aid payment of the district. If the payments are not duly made, the state treasurer shall act as authorized in the resolution of the district authorizing the loan. Moneys deposited in the debt retirement fund shall be deemed to have been paid to the district. The state treasurer shall pay the principal of and interest on the state notes as they come due, together with paying agent fees, costs, and expenses in connection therewith, from moneys in the debt retirement fund, except that the moneys therein may be invested as part of the state's common cash. The maturity of any such investment shall not be later than the time when the moneys so invested will be required for the payment of interest or principal and interest on the state notes.

(8) The proceeds of sale of any state notes authorized under this section shall be used solely for the purpose of making loans to districts having an operating deficit as provided in this section and for the purpose of paying the costs of the issuance and delivery of state notes. The proceeds of sale of the state notes shall be deposited in a separate account to be established by the state treasurer

to be designated "school operating note proceeds account". State notes shall not be delivered under this section until the district that is to receive a loan has authorized the borrowing of money and issuance of district notes and has delivered the district notes to the state treasurer in accordance with this section.

Sec. 140. (1) A board of education which borrowed pursuant to section 138 shall submit its budget for review and approval to the department. The department shall take any steps necessary to assure that the expenditures of a school district which receives moneys under this amendatory act shall not exceed revenues on an annual basis and that the school district maintains a balanced budget. The authority of the department of education shall not supersede any existing contracts made in good faith by a first class school district, or any existing statutory obligation of the school district.

(2) The school district shall file a report with the auditor general 45 days after the effective date of this act and every 30 days thereafter disclosing the results of the financial operation of the district for the first 30 days and 30 days thereafter following the effective date of this act. The auditor general shall evaluate the report and his findings shall be forwarded to the legislature.

CHAPTER 14

Sec. 141. (1) When a district, in whole or in part, is attached to another district by an intermediate board acting under the school code of 1955, the amount of state aid to be paid to the district to which territory is attached during the fiscal year of attachment and the following 6 fiscal years shall be increased when the district already is eligible for state aid, and the state equalized valuation per membership child in grades K-12 in the territory attached is less than the state equalized valuation per membership child in grades K-12 in the district to which territory is attached.

(2) The amount of the increase shall be computed by multiplying the number of children in membership in grades K-12 in the territory attached by the difference between the state equalized valuation per membership child in grades K-12 in the receiving district and the state equalized valuation per membership child in grades K-12 in territory attached and the product thus obtained by the millage levied for operating purposes over and above 4¼ mills in the receiving district. The increase shall be ¾ of this product for the second year, ½ of this product for the third year and ¼ of this product for each of the fourth through the seventh years.

(3) The amount of the increase shall be computed each year on the basis of the facts at the date of attachment except that the millage levied for operating purposes shall be the actual millage spread each year.

Sec. 142. (1) When a school district, in whole or in part, was attached to another district prior to January 1, 1969, as authorized by Act No. 239 of the Public Acts of 1967, as amended, being sections 388.711 to 388.720a of the Michigan Compiled Laws, the amount of state aid to be paid in the year 1973-74 to the district to which territory was attached shall be increased by $100.00 per pupil added as a result of such attachment in the year 1968-69 for the purpose of bringing about uniformity of educational opportunity for all the pupils of the district. The number of student residents of the attached areas and counted as resident students on September 27, 1968 shall serve as the basis for the payment of these funds.

(2) School districts receiving students under Act No. 239 of the Public Acts of 1967, as amended, and divided and attached between January 1, 1969 and July 1, 1969, shall be granted the sum of $77.50 per student resident of the area received as a direct result of the attachment. The money shall be deposited in the general fund account of the districts receiving the students and used for the purpose of bringing about uniformity of educational opportunity for all the pupils of the enlarged school district. The number of students each district receives under Act No. 239 of the Public Acts of 1967, as amended, shall be determined by a membership count as made by the department on September 26, 1969. Not more than $300,700.00 is allocated for the purposes of this subsection.

(3) Any funds owed to the attached district including but not limited to any overpayment of bills paid by the attached district, delinquent property taxes for operating purposes, reimbursement due the attached school district from the state for transportation and tuition or any funds due the district from federal or other state sources, or gifts received by or in behalf of the attached district shall be placed in the school aid fund.

CHAPTER 15

Sec. 151. Annually the treasurer of each county shall furnish to the department, on or before July 1 following the receipt of assessment rolls, a statement of the state equalized valuation of each district and fraction of a district within the county on forms furnished by the department.

Sec. 152. Before the first Monday in November of each year each district shall furnish to the department such reports as it deems necessary for the determination of the allotment of funds under this act. Each district employing 25 teachers or more shall furnish to the department a copy of its salary schedule and a statement to what extent the schedule is being observed.

Sec. 153. On or before the first Monday in November of each year each district shall furnish to the legislative fiscal agency of the state legislature such information as the agency shall require on forms prepared and furnished by such agency, relative to the expenditure of funds appropriated under this act for the prior year.

Sec. 154. The superintendent of each intermediate district between August 20 and August 30 of each year, and at any other times upon the request of the treasurer of the county, shall furnish to the county treasurer the names and post-office addresses of the treasurers and the president and secretaries of the boards of all districts in his county.

Sec. 155. The secretary of the board of each district enrolling nonresident pupils shall certify to the department on forms furnished by it, the number of nonresident pupils enrolled in each grade on the fourth Friday following Labor day of each year, the districts in which the nonresident pupils reside, the amount of tuition charged for the current year and any other information required by the department.

Sec. 156. The department shall inform, in writing, each legislator, prior to the warrants being delivered, of the amount of money each district in the legislator's respective representative or senatorial district will receive and shall furnish to the legislature before November 1 of each year a report containing the certified enrollments of all districts of the state as filed with the intermediate district superintendents pursuant to the requirements of section 101.

CHAPTER 16

Sec. 161. A school official or member of a board or other person neglecting or refusing to do or perform any act required by him by this act or violating or knowingly permitting or consenting to the violation of this act, is guilty of a misdemeanor, and shall be fined not more than $500.00 or imprisoned not more than 3 months or both.

Sec. 162. A district which fails through the negligence of its officers to file reports in accordance with chapter 15 shall forfeit such proportion of funds to which the district would otherwise be entitled under this act as the delay in the reports bear to the school term as required by law for the district.

Sec. 163. As provided in the school code of 1955, the board of any district shall not permit an unqualified teacher to teach in any grade or department of the school. A district employing teachers not legally qualified shall have deducted the sum equal to ½ the amount paid the teachers. Each intermediate superintendent shall notify the department of the name of the unqualified teacher and the district employing him and the amount of salary the unqualified teacher was paid within his intermediate district.

CHAPTER 17

Sec. 171. The provisions of Act No. 136 of the Public Acts of 1945, as amended, being sections 38.201 to 38.358 of the Michigan Compiled Laws, requiring certification by the retirement boards of estimated aggregate compensations of school employees for the ensuing year and monthly payments by the state treasurer of the amount certified to him by the superintendent of public instruction are waived. The appropriations contained herein for such purposes shall be allocated by the budget director to the retirement systems quarterly pursuant of their certification of actual compensation received by school employees. Notwithstanding the provisions of Act No. 136 of the Public Acts of 1945, as amended, the appropriations contained herein are based upon 13% of the estimated aggregate compensation of school employees of the Detroit and Michigan public school employees' retirement systems. The employer contribution for current service and social security on aggregate salaries paid from federal funds to members of the Detroit and Michigan public school employees' retirement systems shall not be paid from the state's school aid fund but shall be paid from any federal or state funds otherwise payable to the school district.

Sec. 172. Notwithstanding any other act to the contrary, in no case shall the annual retirement allowance payable to a retirant or beneficiary in chapter 1 or 2 who retired any time before July 1, 1956 be less than $3,000.00: Provided, That a person serving less than 30 years but not less than 10 years shall be entitled to a retirement allowance of not less than an amount which bears the same ratio to $3,000.00 as the total years of service of said person bears to 30 years.

Sec. 173. Pursuant to the provisions of section 27 of chapter 1 and section 45 of chapter 2 of Act No. 136 of the Public Acts of 1945, as amended, there is allocated from the amount appropriated in section 11 for the:

MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM		
13% on estimated aggregate payroll of $1,553,308,000.00		$ 201,930,000.00
For current obligation and unfunded accrued liability	$124,265,000.00	
For social security	77,665,000.00	
For Chapter I retirees (per section 172)		2,215,000.00
Subtotal		$ 204,145,000.00
DETROIT PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM		
13% on estimated aggregate payroll of $267,727,000.00		$ 34,805,000.00
For current obligation and unfunded accrued liability	$ 21,418,000.00	
For social security	13,387,000.00	
For Chapter II retirees (per section 172)		1,600,000.00
Subtotal		$ 36,405,000.00
TOTAL		$ 240,550,000.00

Sec. 174. (1) On July 1, 1972, the monthly retirement allowance payable to a retirant or beneficiary whose allowance was computed on the basis of section 15b of chapter 1 and section 23 of chapter 2 of Act No. 136 of the Public Acts of 1945, as amended, and who was on the rolls for June, 1971, is increased as follows:

Effective date of retirement	Percent of increase
August 1, 1970, to July 1, 1971	1
August 1, 1969, to July 1, 1970	2
August 1, 1968, to July 1, 1969	3
August 1, 1967, to July 1, 1968	4
August 1, 1966, to July 1, 1967	5
August 1, 1965, to July 1, 1966	6
August 1, 1964, to July 1, 1965	7
August 1, 1963, to July 1, 1964	8
August 1, 1962, to July 1, 1963	9
August 1, 1961, to July 1, 1962	10
August 1, 1960, to July 1, 1961	11
August 1, 1959, to July 1, 1960	12
August 1, 1958, to July 1, 1959	13
August 1, 1957, to July 1, 1958	14
July 1, 1956, to July 1, 1957	15

(2) Beginning July 1, 1972, notwithstanding any other act to the contrary the appropriations made in sections 172 and 173 and the benefit increases i section 174 are made subject to the express condition that each member of the Michigan and Detroit public school employees' retirement systems, as defined by section 1 of chapter 1 and section 11 of chapter 2 of Act No. 136 of the Public Acts of 1945, as amended, shall contribute 5% of his annual compensation to his respective system. In no instance shall the annual computed benefits payable to a retirant who retires after July 1, 1972 or beneficiary of such retirant of the chapter 1 retirement system of Act No. 136 of the Public Acts of 1945, as amended, be less than the annual computed benefit under the provisions of chapter 2.

(3) The benefit provisions of this section shall not become effective until January 1, 1973. Pursuant to section 8 of Article III of the state constitution, the legislature requests the opinion of the supreme court as to the constitutionality of this section. If this section is declared to be constitutional, the benefit provisions shall be retroactive to July 1, 1972.

Sec. 179. Act No. 312 of the Public Acts of 1957, as amended, being sections 388.611 to 388.652 of the Compiled Laws of 1948, is repealed.

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